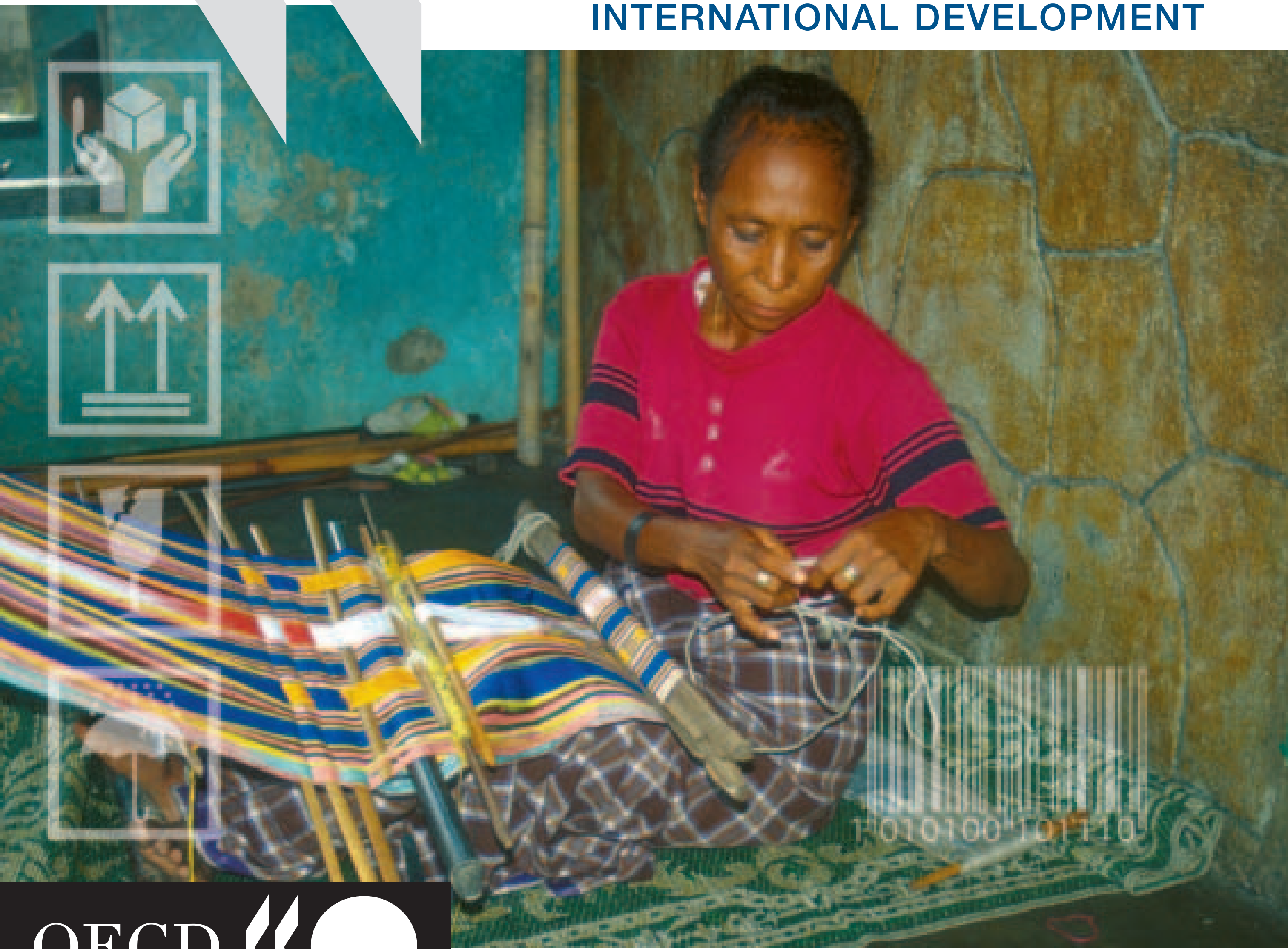
The DAC Guidelines

Strengthening Trade Capacity for Development

INTERNATIONAL DEVELOPMENT



OECD

The DAC Guidelines
Strengthening Trade Capacity for Development

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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– to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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Preface

The guidelines have been prepared by the DAC Secretariat in close collaboration with a range of stakeholders, including representatives of developing country governments and enterprise organisations. In addition, an informal steering group was set up at the start of the project and met several times to guide the work. It included representatives of multilateral organisations, including the World Trade Organisation (WTO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), the United Nations Development Programme (UNDP) and the World Bank; independent research organisations, including the Overseas Development Institute, the European Centre for Development Policy Management, the International Centre for Trade and Sustainable Development and the Overseas Development Council; and bilateral aid agencies, including those of Canada, the European Commission (EC), Japan, the Netherlands, the United Kingdom and the United States. The report also draws extensively on four country case studies of trade capacity building efforts, commissioned for this project. They include El Salvador, Ghana, Senegal and Vietnam. A further case study was prepared on the African Enterprise Networks.

These case studies are available on the OECD Online Bookshop along with a companion document, *Building Trade Policy Capacity in Developing Countries and Transition Economies – A Practical Guide to the Design of Trade Policy-Related Technical Co-operation*. This guide, prepared by the UK Department for International Development (DFID), is aimed specifically at donor agency officials responsible for designing, implementing or improving trade capacity building programmes in the field.

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Statement by the DAC High Level Meeting upon endorsement of the DAC Guidelines on Capacity Development for Trade in the New Global Context

Paris, 25-26 April 2001

Trade makes an essential contribution to development. Trade and trade liberalisation are not ends in themselves. When supported by appropriate policies, including, *inter alia*, macroeconomic stability, sound environmental practices and good governance, they make an essential contribution to pro-poor growth and sustainable development. They enhance a country's access to goods, services, technologies and knowledge. And by stimulating the entrepreneurial activities of the private sector, they create jobs, foster learning processes, attract private capital flows, increase foreign exchange earnings and generate resources for sustainable development and poverty reduction.

A growing number of emerging market economies have already benefited greatly from globalisation. To join them in ways which are consistent with sustainable human development, less advanced developing countries need to take further the process of policy reform and institutional and infrastructure development, and be able to participate effectively in the processes that shape global economic rules, institutions and markets. Governments and private sectors of many countries still lack the institutional and human resource capacities to deal with the complexity of the multilateral trading system and the multiple demands of regional, bilateral and multilateral trade agreements.

OECD countries have a major stake in strengthening the trade-related capacities of these countries. It is in their mutual interest to help developing countries overcome trade capacity gaps, negotiate effectively and credibly, implement trade agreements and meet their obligations under them. If these challenges are not met, many developing countries may lose faith in the benefits of openness, have less capacity to sustain imports and remain dependent on foreign aid.

To promote developing countries' integration into the world trading system, we agree to:

Work with partner countries to help them build trade capacities, enhance their trade performance and participate effectively in the rule-making and institutional mechanisms that shape the global economy. Trade capacity building complements vital domestic reform efforts and action by industrial countries to open their markets to developing country goods and services.

Support partner countries' efforts to mainstream trade as part of their national development and poverty reduction strategies. In this context we recognise the links between trade capacity building activities and mainstreaming trade as part of the poverty reduction strategy processes. We will work closely with the World Bank and IMF as well as other associated agencies towards this objective.

Assist developing countries to establish effective and sustainable trade policy frameworks and processes. Local ownership and participation are defining features of such a process. We will help to facilitate the consultations among stakeholders, with the private sector and civil society, within governments and across regions that will ensure that development co-operation activities are locally-owned and demand-driven.

Place the private sector at the centre of efforts to build a trade policy process. All trade capacity constraints need to be viewed through the eyes of the private sector actors. Development co-operation can also help to strengthen private sector associations to voice their aspirations and constraints and make an active contribution to the trade policy-making process.

Foster commitment among country level aid managers for trade development and provide them with sufficient institutional support in terms of resources, incentives and knowledge of trade issues to undertake trade capacity building activities. A regular dialogue between the aid and trade communities can facilitate this process.

Help strengthen partner countries' ability to assume a leadership role in their development process and to sustain that process. We should reach out as much as possible to local experts, institutions and consultants to help partner countries make better use of existing capacities and to build new and sustainable capacities. This requires a long-term commitment, but will be more effective than an ad hoc approach that fails to create self-sustaining trade policy processes.

Ensure that trade capacity building activities are comprehensive in scope and integrated in execution. Building viable trade policy frameworks will require action in multiple areas, involving multiple stakeholders. Comprehensive approaches will ensure that initiatives in one area do not fail because of a lack of complementary action elsewhere. The Joint Integrated Technical Assistance Programme (JITAP), involving a coalition of bilateral and multilateral donors and eight developing countries, helps to show us how this can be done.

Ensure, in collaboration with the core agencies of the Integrated Framework for Trade Related Technical Assistance, that trade capacity building activities are implemented and co-ordinated effectively in accordance with partnership principles. This will mean working more proactively with these agencies. It will also mean expanding financial resources allocated to trade-related activities, either through the Integrated Framework Trust Fund or bilateral and other multilateral activities. We recognise that bilateral agencies can and should have a more prominent role in co-ordinating donor responses in those countries where they have a strong field presence and interest in trade capacity building.

Work actively with the trade community to help integrate development perspectives into trade policy formulation and implementation. Efforts to strengthen processes such as the Trade Policy Review Mechanism of the WTO and the Investment Policy Review of UNCTAD might be supported in this regard. They are potentially useful mechanisms to raise awareness of constraints to trade and investment in developing countries. They can help to ensure coherence between trade policies and regulatory regimes on the one hand, and overall development goals on the other. *The DAC Guidelines on Poverty Reduction* also provide useful guidance on mainstreaming development generally and promoting policy coherence.

Improve information-sharing and co-ordination among bilateral and multilateral donors in this area. The challenges of trade capacity in any given country are beyond the means of any single donor. Better co-ordination and a sharper division of labour will help prevent duplication, make best use of resources and avoid overloading partner country capacities. The poverty reduction strategy processes and the Integrated Framework are important instruments for enhancing co-ordination.

Ensure that our bilateral activities support partner countries' outward-oriented regional co-operation strategies. Regional strategies can help lower transaction costs and provide export production and marketing experience in familiar regional markets before entry into more competitive international ones. Such strategies should be consistent with broader multilateral trade and development initiatives.

At the Ministerial Meeting in Marrakesh establishing the WTO, Ministers recognised "that the globalisation of the world economy has led to ever-growing interactions between the economic policies pursued by individual countries, including interactions between the structural, macroeconomic, trade, financial and development aspects of economic policy-making. The task of achieving harmony between these policies falls primarily on governments at the national level, but their coherence internationally is an important and valuable element in increasing the effectiveness of these policies at national level." [Declaration on the contribution of the WTO to achieving greater coherence in global economic policy-making.]

At the Second WTO Ministerial Conference in Singapore, Ministers further committed themselves "to address the problem of marginalisation and continue to work for greater coherence in international economic policy-making and for improved co-ordination between the WTO and other agencies in providing technical assistance" [WT/MIN(96)/DEC Ministerial Conference, Singapore – Singapore Ministerial Declaration – Adopted on 13 December 1996].

At the G-8 Summit Communiqué in Okinawa, Ministers noted that "Trade and investment are critical to promoting sustainable economic growth and reducing poverty. We commit ourselves to put a higher priority on trade-related capacity building activities."

At the meeting of African Trade Ministers in Libreville in November 2000, Ministers reaffirmed "Africa's commitment to working in the framework of the Multilateral Trading System within the WTO". Ministers also emphasized "the need to make trade a priority in the national development policies of African countries".

Executive Summary

The trade, aid and finance communities are developing more coherent strategies to help developing countries integrate with the global economy. These guidelines provide a common reference point for these efforts. They also show how donors can help developing countries build their capacity for trade.

Trade capacity building enhances the ability of partner country policy-makers, enterprises and civil society actors to:

- Collaborate in formulating and implementing a trade development strategy that is embedded in a broader national development strategy.
- Strengthen trade policy and institutions – as the basis for reforming import regimes, increasing the volume and value-added of exports, diversifying export products and markets and increasing foreign investment to generate jobs and exports.
- Participate in – and benefit from – the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce.

Five premises

One: *Trade and its liberalisation can contribute to development.* Trade and trade liberalisation are not ends in themselves. Nor are they sufficient to generate dynamic and sustainable development on their own. But they can enhance a country's access to a wider range of goods, services, technologies and knowledge. And by stimulating the entrepreneurial activities of the private sector, they can create jobs, foster vital "learning" processes, attract private capital flows, increase foreign exchange earnings and generate resources for sustainable development and the alleviation of poverty.

Two: *Developing countries want to integrate with the global economy*. Beneficial integration with the global economy requires a major and comprehensive effort at further reforms – and more effective participation in the rule-making and institutional mechanisms that shape the global economy. Ensuring that this integration is consistent with sustainable human development is a key challenge for partner countries and for donors.

Three: *The new global economic context offers promising opportunities but poses daunting challenges*. The increasing complexity of global markets, the new challenges of the multilateral trading system and the competing demands of regional, bilateral and multilateral trade agreements confront developing countries with an expanding array of competitiveness and policy challenges. Yet, they frequently lack the institutional and human resource capacity to meet these challenges.

Four: *Trade policy-makers have a major stake in strengthening the trade-related capacities of developing countries.* It is in the interest of OECD countries that developing countries overcome trade capacity gaps, negotiate effectively, implement trade agreements and meet continuing obligations under those agreements. Trade-related capacity building offers a valuable tool for meeting the challenge to the MTS posed by the ongoing concerns and disputes over trade and labour – and trade and the environment.

Five: *Donor support can strengthen the multilateral trading system by addressing the trade challenges facing developing countries.* Governments have pledged in recent months to strengthen the Integrated Framework, and heads of state at the last two G-8 Summits called for enhanced capacity building for trade and improvements in its delivery.

Putting in place an effective policy framework for trade

One of the main objectives of trade capacity building is to help developing countries put in place sustainable trade policy frameworks and processes. Indeed, the record suggests that no country has achieved substantial gains in trade without an effective trade policy framework. Any such framework will be constructed, of course, from discrete institutions and arrangements, each needing attention from developing countries and donors. But all efforts should be guided by a vision to mainstream a comprehensive trade development strategy in a broader national development and poverty reduction strategy.

A sound trade policy framework and process will: help developing countries address a wide range of trade-related challenges and opportunities over an extended period; facilitate genuine local "ownership" of trade development efforts; reduce the risk that the trade policy priorities of donors will influence developing country trade policies; and enable developing countries to sustain and upgrade trade-related capacities after donors have departed.

Elements of an effective trade policy process

Although it is not possible to recommend a single policy framework that is ideally suited to promoting trade, recent capacity-building efforts point to several features or arrangements that have tended to promote success. Donors and developing countries should seek to construct trade policy frameworks with the following elements:

- A coherent trade strategy that is closely integrated with a country's overall development strategy.
- Effective mechanisms for consultation among three key sets of stakeholders: government, the enterprise sector, and civil society.
- Effective mechanisms for intra-governmental policy co-ordination.
- A strategy for the enhanced collection, dissemination, and analysis of trade-related information.
- Trade policy networks, supported by indigenous research institutions.
- Networks of trade support institutions.
- Private sector linkages.
- A commitment by all key trade stakeholders to outward-oriented regional and global strategies.

What this means for donors

- *Co-ordinate trade capacity building efforts much more closely.* The institution-building to leave behind a sustainable trade policy framework is beyond the means of any single multilateral or bilateral donor. Such a policy framework cannot operate effectively if the institutions and arrangements constituting it are assembled (or strengthened) independently. The complexity of this development co-operation agenda demands a significant measure of donor agreement on the objectives, a sequencing of activities and a division of labour. And by co-financing a trade policy framework, donors will also conserve funds, share risks and leverage their investments.

- *Ensure that trade capacity building activities are comprehensive in scope and integrated in execution.* Assembling viable trade policy frameworks will require action in many areas by many stakeholders, and efforts in one area must be implemented jointly with efforts in others. That will help partner countries to assess priority needs – and donors to identify and co-ordinate priority interventions.

- *Foster local ownership and participation in all trade-related development co-operation activities.* Local participation and consultation – among stakeholders, within governments, across regions – define an effective trade policy process. By helping developing countries build such a process, donors will take a major step toward ensuring that development co-operation initiatives are locally-owned and driven by demand. An effective trade policy process will also minimise the long-term risk that the trade or commercial interests of donors will conflict with those of their partner countries.

- *Embrace approaches that strengthen the ability of partner countries to continue helping themselves once donors have left.* When the focus of development co-operation is on the construction of a trade policy framework, the necessity that donors find ways to build sustainable capacities becomes self-evident. "One-off" initiatives – in which foreign technical experts spend weeks or even months in a country but leave little expertise behind – should be avoided. And in staffing projects, donors should rely on local talent as much as possible.

- *Strengthen donors' own trade-related capacities.* Donors need to enhance their range of skills and knowledge. Expertise in building institutions (public, private and hybrid) and consultative mechanisms will be especially important. So will that for nurturing policy and support networks. In addition, strengthening stakeholder consultation and policy co-ordination will require better facilitation skills, especially in the field – and greater understanding of multilateral and regional trade issues. Donors would also benefit from more systematic exchanges of information on each other's programmes and experiences, perhaps using a dedicated Internet Website.

- *Commit significant financial and personnel resources to build trade policy frameworks in developing countries – with the prospect of substantial returns.* Helping to build a trade policy framework in a country where none has existed before will require long-term donor commitments and sustained effort by many talented officials. The long-term cost effectiveness of such an effort will be much higher than that of an ad hoc approach that fails to create self-sustaining trade policy processes. But as enduring capacities are built, donors can gradually recede.

1 Introduction

These guidelines provide overall policy guidance and a common reference point for the trade, aid, and finance communities on capacity development for trade, putting trade capacity building in the context of comprehensive approaches to development and poverty reduction. They also review and analyse the strategic importance of trade capacity development. And they identify key principles and processes that shape the design and delivery of trade capacity building activities.

... start with appropriate policies at home – social, economic and political policies

Any dynamic process of economic growth and integration in the world economy starts with appropriate policies at home – social, economic and political policies that can allow trade to contribute to development. Trade is not an end in itself. Nor is it sufficient on its own to generate dynamic and sustainable development. But trade can enhance a country's access to a wider range of goods, services, technologies and knowledge. It stimulates the entrepreneurial activities of the private sector. It creates jobs. It fosters vital "learning" processes. It attracts private capital. It increases foreign exchange earnings. Above all, it generates the resources for sustainable development and the alleviation of poverty.

Without the gains from trade, developing countries have less ability to sustain imports, less faith in the benefits of openness and continued dependence on foreign aid. That can undermine the capacity of governments to develop the economic and social infrastructure for a sustained reduction in poverty. It can also lead to a vicious circle of political instability, environmental degradation and detachment from regional and global initiatives. So, it is clearly in the interest of all countries to help developing countries enhance their capacities to capture and exploit the benefits of trade for sustainable development.

The multilateral trading system (MTS) and international markets have become highly complex. And far more than "stroke of a pen" efforts to cut tariffs, the new elements of the MTS require major investments in institutional and human capacity – and a multidimensional strategy for integrating into the global economy. Developing countries need to frame a broad set of trade initiatives within an appropriate macroeconomic environment and a comprehensive approach to development. They also need to be active in exercising their rights and obligations in the multilateral trading system. But they cannot achieve these objectives without substantial support from the international community.

Many OECD countries are committed in their assistance programmes to helping developing countries integrate themselves more fully into the world economy. This commitment reflects the widely held view that expanded trade and investment can be critical engines of growth – and that development co-operation can spur the private sector development on which trade and investment depend. Many donors, of course, have devoted substantial resources to private sector development initiatives over the past few decades, some helping also to generate exports and investment. But the marginalisation of the LDCs, the growing complexity of the multilateral trade system, and the competing demands of regional and bilateral trade initiatives suggest that more is needed. The equitable integration of developing countries into the global economy may require new forms of trade-related development co-operation.

Development co-operation must take a holistic approach

Experience has demonstrated that to be effective in this area, development co-operation must take a holistic approach which links macroeconomic and structural reforms which foster strong private sector growth, with human and institutional capacity development in a targeted, coherent and comprehensive manner. Individual measures to create the right policy framework or to build productive capacities or enhance developing country participation in trade fairs are not in themselves sufficient if taken in isolation. Moreover, the government, the private sector, and civil society each have a role to play both in improving trade performance and strengthening participation in trade policymaking. Translating these principles into action has, however, proven to be much more difficult than anticipated.

Trade-related capacity building involves a range of interconnected activities of donors and partner countries to enhance the ability of the partner country's policy-makers, enterprises and civil society actors in three areas. First is collaborating on the development and implementation of a trade development strategy that is embedded in a broader national development strategy. Second is strengthening policies and institutions as the basis for increasing the volume and value-added of export production, diversifying export products and markets, reforming import regimes and increasing export- and employment-generating foreign investment. Third is participating in – and benefiting from – the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce.

Bilateral donors can add significant value to the implementation of integrated approaches. They have the benefit of decades of experience in project implementation and evaluation, a strong field presence and well-established dialogues with the private sector and civil society in many partner countries. Suggestions for ways to improve partnership approaches to capacity development for trade will be a key part of these guidelines.

The guidelines are organised as follows: Section 2 sets out the rationale and strategic importance of trade capacity building in light of the new global economic context. It explains what trade capacity building is and situates it in the context of comprehensive approaches to development and poverty reduction. Section 3 identifies the key competitiveness and policy challenges faced by developing countries in their efforts to improve trade performance. Section 4 seeks to identify the elements necessary for putting in place an effective framework for trade policy processes. Finally, Section 5 considers the principles and approaches to help ensure effective development co-operation in this area.

2 Why Develop the Capacity for Trade?

Many of the poorest countries have not yet been able to integrate

The impressive record of the developing world as a whole in the past couple of decades obscures a wide diversity between the more and less advanced developing countries in trade performance and participation in the WTO, regional institutions and global economic policy discussions. Despite major efforts at reform, many of the poorest countries, especially in Sub-Saharan Africa, have not yet been able to integrate successfully into global markets, and hence to participate in the growth-inducing and poverty-reducing benefits of trade.

They frequently lack institutional and human capacity

The reversal of this trend towards marginalisation and helping the less advanced developing countries reap full benefits from the multilateral trading system have become important policy objectives for both developing countries and the wider global community. Developing countries want to join in the globalisation process. They want to enhance the conditions for faster investment and economic growth, expanding and diversifying their exports – and ultimately reducing poverty. They know that integration in the global economy requires a major effort at further reforms and more effective participation in the rule-making and institutional mechanisms that shape the global economy. But their governments confront an expanding array of policy challenges, frequently with limited institutional and human capacity. And their firms face the challenges of competition.

The New Global Economic Context

Increasingly complex and elaborate web of linkages in markets

The globalising world is characterised by an increasingly complex and elaborate web of linkages in markets for goods, services, investment and finance in which developing countries are assuming a more important role. A rapidly expanding group of developing countries have taken deliberate steps to open their economies wider to the outside world through a combination of unilateral, regional and multilateral liberalisation initiatives. This has led to an increase in their trade to GDP ratios and greater stakes in a well-functioning world economy. Globalisation has been driven partly by technological innovations that have shortened economic time and space. This implies new possibilities for upgrading all economic activities, not just the high technology sectors. Information and communication technology are lowering transaction costs for a very broad range of actors and allowing for world-wide sourcing strategies, which offer new scope for developing country firms to participate in global markets. Moreover, along with regulatory innovations, new technologies have made it possible to supply many services on a competitive basis and have opened up possibilities for developing countries to trade in such services.[1]

Developing countries have to adjust...

Developing countries have to adjust to a growing volume of trade through ongoing commercial relationships and to the competitive strategies of multinational corporations in different countries – through buyer-supplier arrangements, subsidiary-headquarters relationships, corporate alliances and production and marketing deals. Managing these relationships – often initiated by purchasers and frequently involving investment ties – can be more difficult than navigating the traditional export-import marketplace. And recent growth in the share of non-traditional products in developing countries' output also requires new markets and marketing strategies.

Networking can strengthen the capacity of developing countries to adjust to changes in international tastes, prices and competitive conditions. Regional networks can reduce the enormous co-ordination costs in global sourcing and marketing. They can also help firms overcome production bottlenecks and build technological and managerial capacities.[2] Many less advanced developing countries are finding that some of their most promising new trade opportunities are in markets outside the OECD. Regional networks can help them trade on a commercial (rather than preferential) basis and adjust to the stiff competition as they move up the value chain into new markets.

Globalisation blurs the national identity of firms and of products and undermines the traditional separation between domestic and international policy-making. It thus reduces the scope for autonomous national policies, with the policy parameters now set by the "rules of the game" for global markets. This can be good-reducing the latitude to pursuing inappropriate policies, such as overvalued exchange rates, without inflicting serious damage on their economies.[3] But it also demands that they come to terms with international trade rules, agreements, institutions and developments.

Participation in the multilateral trading system

Formal participation in the multilateral trading system through the WTO offers many advantages to developing countries, which are joining at a rapid pace. They recognise that trade rules and multilaterally negotiated agreements can affect their access to markets, help them withstand domestic pressures opposed to policy reform and improve the credibility of their domestic reform process.[4] Membership in the WTO thus can enhance the environment for greater investment and faster trade and economic expansion. It also gives them the protection of a rules-based system that guarantees access to a binding dispute settlement system and more generally strengthens the foundation for global political stability.

But the attempts of less advanced developing countries to adapt to this broader trade agenda have exposed gaps in trade-related capacity. They face three main challenges.

Implementing the new WTO agreements

First, implementing the new WTO agreements and obligations demands much from the institutional and human capacities of poor countries. The Uruguay Round addressed regulatory policies and business practices that can restrict trade behind borders, and developing countries took on unprecedented obligations to reform trade procedures and much domestic regulation. These obligations covered such issues as import licensing procedures, customs valuation, intellectual property law and technical, sanitary and phyto-sanitary standards. But do poor countries have the institutional capacity for these reforms? Can they finance the necessary investments in the light of other development priorities?[5] And can compliance bring benefits if it is not part of broader trade policy reforms? Ensuring that trade reform is comprehensive, coherent and sustainable – a major task for poor countries – thus becomes even more important.[6]

Rules and institutional mechanisms that shape the global economy

Second, considerable capacity is needed for effective participation in the design, enforcement and use of the rules and institutional mechanisms that shape the global economy. Being latecomers to full participation in the trading system and negotiating rounds, the less advanced developing countries had great difficulty participating effectively in the Uruguay Round negotiations. They lacked the capacity for effective participation in the negotiation process, and they had limited impact on the design of the new rules. As the WTO process becomes even more complex and technical, it is essential that developing countries develop the capacity to articulate their interests and defend their rights in the WTO framework.[7]

Box 1. EU food safety standards

A new study by World Bank researchers (Otsuki, Wilson and Sewadeh) investigates what health standards mean for trade. Reported in the *Financial Times* on 26 October 2000, the study examines the effects of a European regulation limiting the amount of aflatoxins in imported food. (Aflatoxins are a fungus-like substance linked to liver cancer.) The EU regulation insists on a tighter standard than that recommended by CODEX, which sets international food standards, or by the WHO and the US Food and Drug Administration.

The European approach to food safety is based on the precautionary principle, which justifies restrictions or regulations on food imports even while the scientific risks to health remain unproven. The study calculates that the EU standard, compared with the CODEX, would save two lives for every billion. It would also reduce exports to Europe of cereal, dried fruit and nuts from nine African countries by 64 per cent, or $700 million. And the EU's sampling method would further reduce African exports.

It is important, however, to consider such specific measures in the context of broader policies. The EU has taken major initiatives recently to improve market access for developing countries, including the Cotonou Agreement with the ACP countries (Box 14) and the "Everything but Arms" initiative, which applies to all Least Developed Countries.

Nearly all of the WTO's developing country members are also involved in demanding regional and bilateral trade negotiations and in implementing the agreements reached. Those countries may face new competitive pressures as well as complaints of unfair competition, dumping, etc. from local businesses. Separating legitimate trade issues from normal competitive pressures may severely tax their limited capacity for analysis.[8] They will also have difficulty in balancing competing trade priorities.

Gaining access to export markets

Third, gaining access to export markets of interest will be a major challenge for developing countries. While external constraints may not be the primary reason for slow export growth from poor countries, market access must be seen as an integral part of the capacity building agenda. Barriers to agriculture may, for example, impede the export of agricultural and labour-intensive products, hampering efforts to diversify into downstream processing and into higher value-added and faster growing products. In other words, trade barriers repress the development of trade capacity.

Product standards and other import requirements in industrial countries – such as environmental, labour and health standards – can also pose a significant challenge to developing country export capacity. While product standards have an important role in the effective functioning of markets and trade, developing countries often lack information on such requirements – and the technical and financial resources to comply. They also have limited capacity to participate in the design and implementation of product standards, to set up certification and accreditation facilities, and to bring disputes when standards discriminate against their exports.

Addressing Capacity Gaps

These are development challenges

The attempts of the less advanced developing countries to adapt to the new trade agenda have exposed trade-related capacity gaps that are no longer just trade policy challenges – they are development challenges. Requests from developing countries for support to strengthen their basic capacities in trade are on the rise, and there is a general consensus to provide that support.

But there is still confusion about what building trade capacity means. Getting clarity on this would promote a more productive sharing of information on projects and strategies. It would also permit developing countries to perform needs assessments using a common standard, facilitating cross-national comparisons and donor co-ordination. And it would help ensure the complementarity of regional and multilateral activities, strengthening performance monitoring and evaluation across projects and countries.

According to the DAC's 1997 survey of trade development activities, "Many DAC Members found it difficult to isolate direct trade development activities from country-level programmes which have an indirect impact on trade".[9] Indeed, many donors today do not maintain a formal separation in their programmes between trade capacity building and other activities. Canada, for example, has treated its trade capacity development as a component of its private sector development strategy – but its trade policy-related assistance as part of its strategy to develop institutional capacity for good governance. The EU recently dropped the distinction between trade capacity building, or trade promotion, and private sector development, merging the two departments into one. But trade policy issues are still handled by a separate department.

Two decades of experience with a variety of approaches (Box 2) have culminated in an ambitious concept of how best to help developing countries enhance their trade. This new concept has several key elements, loosely organised into the *what* and the *how* of trade capacity development.

On the *what*, perhaps the most important requirement is to address trade-related constraints known to have some bearing on trade and investment.

- The trade policy environment.
- Policy-making capacities relevant to national, regional and multilateral trade.
- Export-related capacities and infrastructure.
- Trade facilitation and support services.
- Market access.

A related requirement is to increase the capacity needs of individuals and institutions essential for effective trade policy. A key here is to support networks of individuals and institutions to allow for maximum pooling of resources – and to set in motion sustainable capacity building at the local and regional level. The main actors include:

- Government policy-makers and ministries.
- Business people.
- Private sector associations.
- Trade support institutions.
- Labour unions, NGOs and other civil society groups, including women's groups.
- Independent or university-based research entities.
- The secretariats of regional trade organisations.

On the *how*, it is clear that strengthening of human and institutional capacities will have to be comprehensive – not only because of the breadth of the challenges, but because of their interdependence. It has also become clear that trade development must be mainstreamed in development co-operation, just as gender and environmental considerations have been. This means that trade development strategies must be embedded in comprehensive development strategies, for it is not possible to respond to trade-related capacity constraints without also addressing the even more fundamental constraints and problems. Consider the weak professional training for policy-makers. The weak educational and vocational training systems. Governance problems. The absence of an entrepreneurial tradition. The excessive government intervention in economic decision-making. All at the root of trade-related constraints.

Box 2. Trade capacity building: concepts and evolution

For many years, promoting the development of trade was thought to require a set of limited interventions by donors and partner countries, and donor involvement in trade development was correspondingly narrow.

- *Export marketing (1970s).* Donors supported developing country trade promotion organisations, generally to help exporters find buyers for their products. These organisations proved inadequate as a trade development mechanism because "they continued to concentrate on offshore market development and promotional activities, rather than on addressing the fundamental constraint to improved export performance – the inability to develop international export capacities that are consistent with the requirements of the market.[10] "The International Trade Centre in Geneva is now trying to "redefine trade promotion," working with the trade promotion organisations to ensure that experience translates into new approaches.
- *Trade liberalisation (1980s and early 1990s).* With trade liberalisation as part of structural adjustment programmes designed by the key international financial institutions, some countries posted substantial gains in trade and investment, but others did not. As loan conditionalities eased in the 1990s, many liberalisation efforts slowed.
- *Trade facilitation.* Reducing trade-related transaction costs and building familiarity with the rules, procedures and institutions of the international trade system are the focus of such international agencies as the WTO, UNCTAD, UNDP and the International Trade Centre.
- *Trade capacity development.* The new approach focuses on building capacity by facilitating a country-driven participatory trade policy process as part of a comprehensive approach to overall development goals and poverty reduction strategies.

The Integrated Framework is relevant here for at least four reasons (Box 3). It recognises the need:

- To look beyond traditional trade policy instruments for integrating the poorest countries in the system. Several poor countries still face a wide range of constraints that prevent them from making the best use of opportunities.
- To address trade development capacity gaps comprehensively, based on a country's specific needs and priorities.
- To provide co-ordinated and integrated responses by the donor community as an effective way to address the enormous challenges and the limited resources.
- To mainstream trade into comprehensive development frameworks and poverty reduction strategies.

Capacity development for trade is of mutual interest for developed and developing countries

Trade policymakers have a major stake in its success

Strengthening trade-related capacities is ultimately a challenge for development policy and practitioners, but trade policymakers have a major stake in its success. It is in the interest of OECD countries that developing countries are able to overcome their capacity gaps, implement trade agreements effectively and meet their continuing obligations under those agreements. It is also in their interest that developing countries be strong negotiators. A country that knows its own trade interests and can confidently articulate them is a more reliable negotiating partner. It is more likely to conclude agreements that will serve its own interests, be politically sustainable back home and therefore be implemented effectively.

Box 3. The Integrated Framework for least developed countries

The least developed countries (LDCs) are particularly disadvantaged by a lack of capacity to provide trade facilitation services and infrastructure. The Uruguay Round agreement included promises by industrial countries to provide technical assistance to help developing countries strengthen their trade services, but these promises were not binding, and the reality has been disappointing (Michalopoulos 1999, Wang and Winters 2000).

The Integrated Framework was established in 1996 to increase the effectiveness and efficiency of trade-related technical assistance to the countries, in part by strengthening co-ordination among participating agencies and ensuring that technical assistance is demand-driven. Participating are the World Trade Organisation, the International Monetary Fund, the International Trade Centre, the United Nations Development Programme, the United Nations Conference on Trade and Development and the World Bank.

By the summer of 2000, 40 LDCs had completed the first step of the Framework process – a needs assessment. The six international agencies responded, indicating areas in which they could assist. This process revealed little overlap in the activities of the agencies and substantial needs that required additional financing. Organising roundtables to mobilise donor resources proved difficult. By August 2000 only five roundtables had been convened, and in only one (Uganda) did the roundtable lead to the commitment of new funds from donors.

An independent review of the Framework, completed in June 2000, highlighted divergent expectations. Donors hoped to increase the effectiveness of technical assistance through better co-ordination among agencies. Recipients wanted more funding. Hence the recommendations: integrate trade in national development strategies, take steps to strengthen the secretariat and co-ordination functions and establish a trust fund for Framework activities. A Trust Fund has been established and will be managed by UNDP. A new governance body has been set up to provide policy oversight – the IF Steering Committee – and will include representatives from donor countries, LDCs and the OECD/DCD in addition to the six core agencies. And field level co-ordination will be managed by the World Bank in the context of Poverty Reduction Strategy Papers (PRSPs).

Some of the Uruguay Round Agreements have proven more difficult to implement than expected – perhaps reflecting weaknesses in developing country negotiating capacity. But it also seems clear that the very perception by developing countries that they were not well-equipped to negotiate the Uruguay Round has diminished their enthusiasm for those agreements. Events in Seattle suggest that the continuing support of developing countries for the multilateral trading system may hinge on their success in strengthening management of their trade-related affairs and improving their trade performance.

Donor support to developing countries can be valuable

Donor support to developing countries can be valuable in addressing several of the concerns facing developing countries in the multilateral trading system. The WTO's industrial country members have lent their support to a "confidence-building" initiative devised by WTO Director General Mike Moore. The initiative includes proposals for an expanded WTO technical assistance programme, enhanced market access for LDCs, and consultations between the WTO and other organisations on trade-related capacity building. Industrial country governments have also pledged in recent months to strengthen the Integrated Framework. And several heads of state, at two previous G8 meetings, have called publicly for enhanced capacity building for trade and improvements in its delivery.

Trade-related capacity building can also be valuable for meeting a significant challenge facing the MTS, notably as regards trade and labour standards. The World Bank's Global Economic Prospects 2001 suggests that the use of trade sanctions to support labour or environmental standards – legitimate and desirable as these standards may be – intrinsically threatens to restrict developing countries' access to international markets without achieving their professed goals.[11] In this context the policy and private sector capacities required to raise labour and environmental standards can – and should – be strengthened through development co-operation.

How Trade and Trade Policy Can Reduce Poverty

Ensuring that the multilateral trading system is beneficial to the poor

Ensuring that the multilateral trading system is beneficial to the poor is one of the key concerns in current debates about capacity development for trade. Although there is consensus that the MTS and national trade policies should be conducive to maximising the benefits and minimising the negative impacts to the poor, there is no clear-cut policy prescription for how to do this.

The link between trade policy and poverty is complex and sometimes quite indirect.[12] Because trade policy is only one of many factors affecting long-term growth and poverty, and trade policy reforms are undertaken at the same time as other major macro or structural reforms, it is often difficult to isolate and trace its impact. But research is starting to produce some conclusions – which need to be confirmed by more detailed country analyses.

Open economies are conducive to growth

The main conclusion for the longer term is that open economies are conducive to growth – and that overall economic growth is a necessary condition and very closely linked to income growth for the poor. For the short term, and depending on the protection in individual countries and the sources of income and patterns of consumption of the poor, trade liberalisation may increase or decrease their welfare. But in most instances the short-term effects are small. And if there are mutually supportive policies, adequate infrastructure and sound institutions, trade and its liberalisation are more likely to promote growth and poverty reduction. That points to the importance of building human and institutional capacity to accompany trade reforms – and of putting effective safety nets in place. It is also important to consider the effects of reform on men and women (Box 4).

Short-term impacts

The poor are likely to gain from import liberalisation if…

The poor are likely to gain from import liberalisation if they are employed in the export sectors and consume products that have been previously protected. And they are likely to lose if they are employed in protected sectors and consume exportables.

Because the modern industrial sector has typically been more heavily protected and has few poor employees, while agriculture has frequently been penalised, the poor would likely benefit, even in the short run, from trade liberalisation in most developing countries. In Bangladesh after the liberalisation in the 1980s and 1990s, small farmers gained access to such imported technology as pumps, enabling them to benefit from the Green Revolution. This increased employment and reduced food prices. In Uganda, poverty among farmers decreased considerably through the use of new technologies in maize and cassava cultivation. The poor also gain from better market access for their export products, mainly agricultural products and textiles.

Supporting institutions are also important

But liberalisation will reduce poverty only if it is complemented with a broad array of accompanying policy measures, including macroeconomic stability and an appropriate exchange rate policy. The price signals to producers for home and export markets are a combination of trade and exchange rate policy. And an appreciating real exchange rate may well negate the positive stimulus of trade liberalisation on exports. Supporting institutions – such as banks, property rights, quality standards organisations – are also important both for the success of trade reforms and for the benefits the poor obtain from them.

Box 4. Trade and gender

Trade liberalisation and economic globalisation can affect men and women differently, though the differences are neither uniform nor purely positive or negative. Still, approaching trade liberalisation with an integrated gender perspective can increase the likelihood that trade policies will contribute to social, economic and political equity and to poverty reduction. Consider the following:

- Women's participation in the workforce is growing, particularly in export industries.
- Women predominate in the informal sector, producing goods that may be sensitive to competition from imports.
- Women are agriculturalists and, in many countries, the principal producers of domestic crops for home consumption and local trade.

By incorporating a gender perspective in building trade capacity, donors can help developing countries expand trade opportunities and maximise the benefits of trade policies for both men and women.

Approaches include:

- Expanding the assessment of proposed trade programmes to include their impact on social development indicators, such as quality of life, health, education and poverty.
- Removing gender-biased barriers to growth, such as the constraints on women's mobility, the absence of property rights and the disparities in education.
- Strengthening capacity to collect gender-related data at national and regional levels.
- Including the impact by gender, when monitoring and evaluating the effect of trade policies.

Source: US Agency for International Development, January 2001.

The longer-term impacts of trade reform are positive

There is little controversy over the long-term link between growth and poverty eradication. Overall growth in incomes is typically viewed as necessary but not sufficient for poverty reduction. And there is little controversy over the positive longer-term impact of openness on growth and poverty reduction. Greater openness – defined as the ratio of export plus imports to GDP – has been shown to be linked to greater growth through imports that embody more productive technology on total factor productivity. Similarly, an open economy leads to greater competition and efficiency both in the domestic and international markets.

Countries that shifted the structure of incentives…

Many countries that shifted the structure of incentives in favour of exports have benefited from strong, export-led, labour-intensive growth – and that growth has stimulated rapidly rising incomes and substantial reductions in poverty. In these countries, such as Vietnam, the long-term effects of trade reform were extremely positive – not only because of the high rates of growth, but because the labour-intensive growth process was especially favourable for reducing poverty. Intensive country studies support these cross-country results. Many countries grew rapidly after an effective trade reform accompanied by appropriate supportive policies. And no country with a closed economy sustained long-term growth.

Trade liberalisation and export competitiveness

One of the continuing debates is on the link between openness and trade policy. Some countries (Korea) achieved a reorientation of the incentive structure in favour of exports essentially through subsidies, an undervalued exchange rate and extensive use of duty drawbacks. Such countries thus increased export competitiveness and selectively opened the economy to competitive imports while retaining substantial protection in their domestic markets. This approach led to serious structural and financial system problems over the longer-term however. Other countries used alternatives, such as export processing zones (Box 16), to increase openness and get the benefits of increased exports while maintaining trade controls in the rest of their economy.

The emerging conclusion…

The emerging conclusion: To some extent it is possible to increase the openness of the economy and thus growth while maintaining some import barriers. But there are limits to what can be done through such measures as duty drawbacks and export subsidies. Export subsidies in the poorest countries[13] are limited both by budgets and international commitments (WTO). Many developing countries face institutional capacity constraints implementing such measures. And where they are in place, they tend to favour the bigger and larger producers and exporters, not the poor. Meanwhile, low-income developing countries need to promote competitive industries by analysing their initial conditions and competitors, as well as their market prospects in the context of globalisation. There may be scope for retaining and utilising domestic measures selectively and in a transparent manner which are not in contradiction with WTO rules, in order to foster industries which can make a strong contribution to overall export growth and competitiveness in the economy. A liberal trade regime, which provides vital access to competitive import and is supplemented by selective and relatively moderate domestic measures, is a surer way to achieve openness and reduce poverty than is a complex system of taxes and subsidies.

A liberal trade regime is a surer way to achieve openness and reduce poverty…

Export growth is also impeded by other factors including weak export infrastructure, inadequate ancillary export services and high transport costs, often a consequence of poor policies. And external barriers to trade, especially in agricultural and labour-intensive products, undermine efforts of poor people and poor countries to diversify into downstream processing, higher value-added and faster growing products.

Mainstreaming Trade into National Development Strategies

If trade is to serve as an engine of growth…

If trade is to serve as an engine of growth, developing countries must develop a multidimensional strategy for trade expansion – framed in an appropriate macroeconomic environment – and a comprehensive approach to development and poverty reduction. Institutional reforms and improvements in the legal environment can increase investment activity – as can appropriate infrastructure and human capital development.

This ambitious agenda requires a "national vision" of how the country will enter into the globalisation process in a way that sustains human development and generates national support.[14] In this vision, structural and social concerns should be treated equally with macroeconomic and financial concerns. This is also the rationale behind UNCTAD and UNDP's joint global programme, "Globalisation, Liberalisation and Sustainable Human Development" (Box 5). The programme enhances the ability of developing countries, especially low-income countries, to manage their integration into the global economy in a manner supportive of sustainable human development. This approach is based on the principle that the partner country determines – and thus owns – the goals, timing and sequencing of its development strategy.[15]

Trade reforms should be an integral part of comprehensive development frameworks

Trade reforms should be an integral part of comprehensive development frameworks. They seek to ensure that trade policy priorities are set according to the development stage of each country, and are consistent with reforms of exchange rate policies, foreign direct investment, competition and labour practices. The priority each country accords to trade thus depends on the conditions specific to the economy and should come about through a national dialogue over development priorities and appropriate responses.

Box 5. UNCTAD/UNDP Programme on Globalisation, Liberalisation and Sustainable Human Development

The Programme, launched in 1998, aims at enhancing the ability of low-income countries to manage their integration into the global economy in a manner so as to exploit the opportunities offered by globalisation, while minimising the risk of economic and social dislocation.

The Programme articulates its work at two levels.

The global-level activities are meant to

- enhance the ability of developing countries to effectively participate in regional, bilateral and multilateral negotiations;
- promote a better understanding of the linkages between globalisation and sustainable human development; and
- encourage dialogue among policy-makers and other development actors on the social and economic dimensions of globalisation.

The country-level activities, undertaken to date in 10 countries, are aimed at

- analysing the impact of globalisation on economic, social and human development in specific national contexts;
- identifying the future challenges of managing integration into the global economy;
- building consensus on the national development strategies pursued in the wake of globalisation;
- assisting developing countries in equipping themselves with policy and institutional tools to manage their integration into the global economy; and
- ensuring that policies for integration into the global economy and the ones designed to promote sustainable human development are mutually reinforcing.

For further information, please contact:

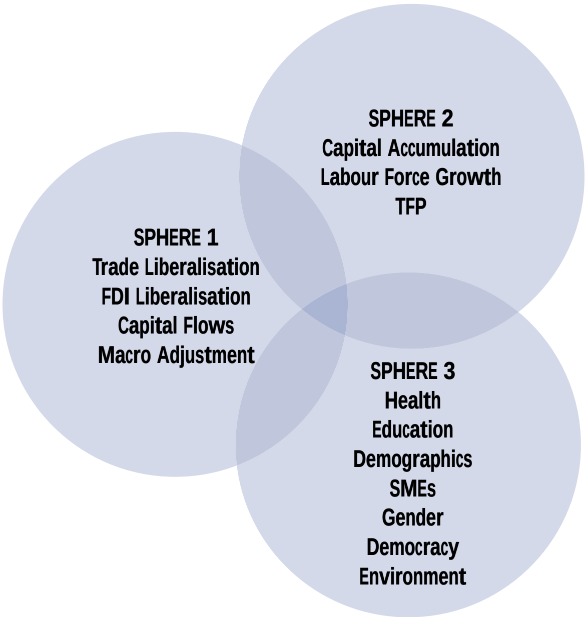
UNCTAD/UNDP Programme on Globalisation, Liberalisation and Sustainable Human Development
E-7024, UNCTAD, Palais des Nations
CH-1211, Geneva 10, Switzerland

UNCTAD/UNDP Programme on Globalisation, Liberalisation and Sustainable Human Development Conceptual Framework

Sustainable human development (SHD) is the core objective of the process of economic growth and development, and also a powerful instrument for promoting them.

The UNCTAD/UNDP Programme investigates the interrelationship between 3 complementary policy spheres:

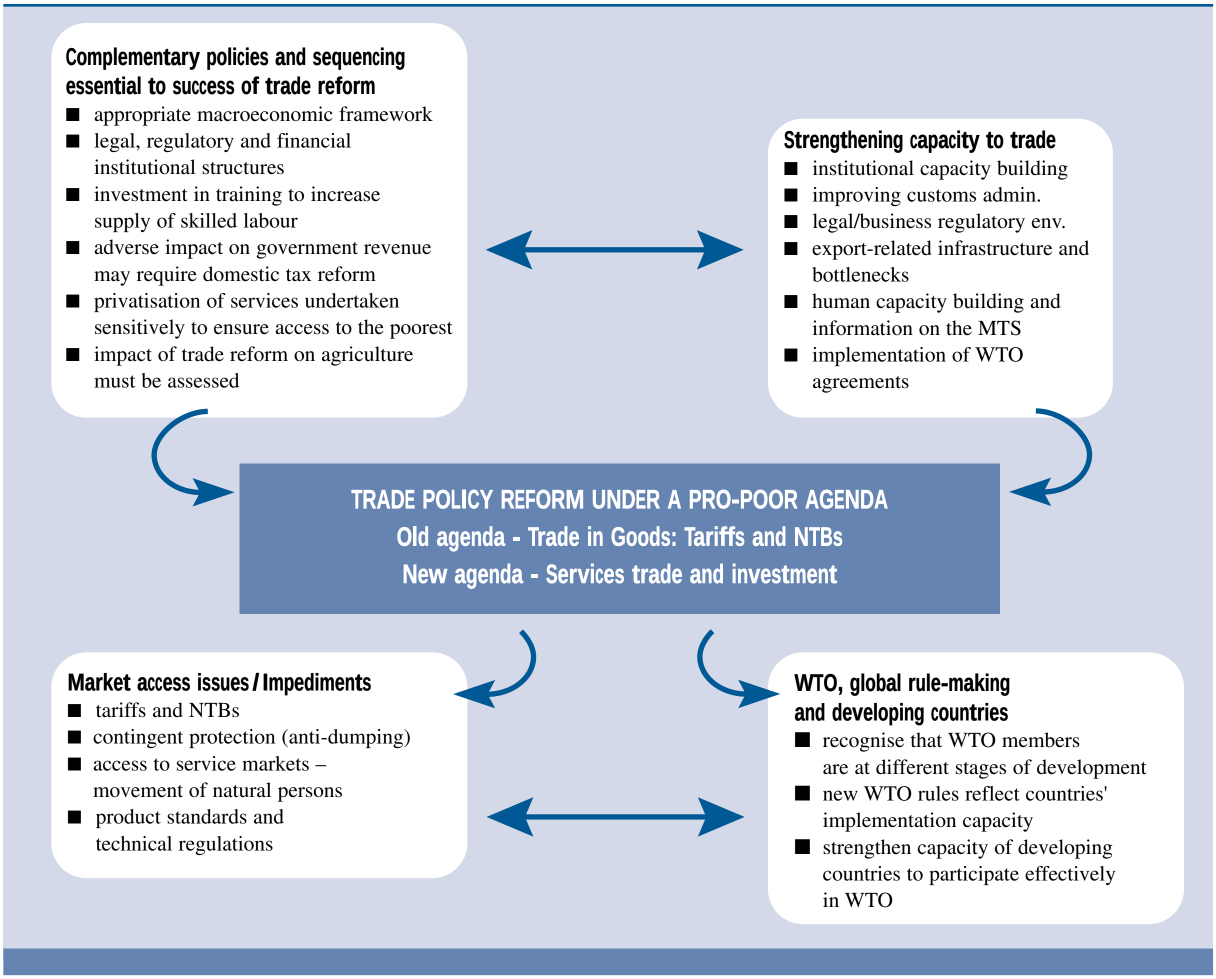
- integration into the global economy and the liberalisation of markets;
- the promotion of fast economic growth;
- and sustainable human development, and the impact of each of these interlocking policy spheres on promoting development.



FDI: Foreign Direct Investment
TFP: Total Factor Productivity
SMEs: Small to Medium-sized Enterprises

Agosin, M., Bloom, D.E. and Gitli, E. (2000), “Globalisation, Liberalisation and Sustainable Human Development: Analytical Perspectives”, UNCTAD/UNDP Occasional Paper.

Figure 1. Mainstreaming trade into national development strategies



… mainstream trade through country-specific poverty reduction strategies

The intention now is to operationalise the Integrated Framework and to mainstream trade through country-specific poverty reduction strategies. Mainstreaming has been defined as involving the process and methods identifying priority areas for trade and integrating them into the overall country development plan.[16] It includes trade reforms, capacity development for trade, market access, global rule-making and regional co-operation (Figure 1). Trade reform must be accompanied by good policies elsewhere, backed by capacity building.

The vehicles for mainstreaming trade into comprehensive development frameworks and for ensuring more effective implementation of the Integrated Framework, will be the World Bank/IMF Poverty Reduction Strategy Papers (PRSPs) and the United Nations Development Assistance Framework (UNDAF) with the World Bank taking the lead.

It has been agreed now to proceed with the implementation of the IF on a pilot basis. The trade integration strategy will encompass analysis of both external and internal constraints to trade, and include an elaborated programme of prioritised and sequenced trade-related technical assistance projects to be considered subsequently for funding at World Bank Consultative Groups (CGs) and/or UNDP Round Tables.

Notes

1. *Trade and Development Issues in Non-OECD Countries* [TD/TC(2000)14/FINAL]
2. *South-South Co-operation in a Global Perspective*, Ed. Lynn Mytelka, OECD 1994.
3. *Building Export Capacity and Market Access*, [MM/LIB/WS9/1], WTO Background Document for Libreville 2000, meeting of African Trade Ministers.
4. The stake of developing countries in the trading system is growing rapidly. In 1996, the average trade-to-GDP ratio for SSA was 24 per cent, with 13 of the 38 SSA WTO members reporting trade-to-GDP ratios in excess of 35 per cent. WTO secretariat calculations reported in R. Blackhurst, B. Lyakurwa and A. Oyejide, *Improving African Participation in the WTO*, paper commissioned by the World Bank for a Conference at the WTO on 20-21 September 1999.
5. For a thorough discussion of the development implications of implementing WTO agreements, see J. Michael Finger and Philip Schuler, "Implementation of Uruguay Round Commitments: The Development Challenges ", *The World Economy, 2000, No. 23.*
6. For example, the lack of stable real exchange rates has been a persistent problem preventing a strong supply response to other trade reforms. High tariffs combined with institutional weaknesses in tax and customs administrations in particular have raised the cost of exporting. Many poor countries continue to rely on revenues from tariffs on intermediate and capital goods as a source of income, they frequently lack effective duty exemption/drawback programmes and have faced difficulties in setting up effective export processing zones. Finally, export growth has been impeded by weak export infrastructure, inadequate ancillary export services, and high transport costs, often a consequence of poor policies – *Global Economic Prospects and the Developing Countries 2001*, World Bank.
7. R. Blackhurst, B. Lyakura, A. Oyejide; *Improving African Participation in the WTO*, paper commissioned by the World Bank for a Conference at the WTO on 20-21 September 1999.
8. Jim Fox, Consultant, reports that Zambia's joining COMESA and SADC will introduce complexities into the government's trade policy that are likely to demand considerable attention and effort from the government, perhaps more than that required by WTO.
9. *Survey of DAC Members' Co-operation for Capacity Development in Trade*, 1997 [DCD/DAC(97)24/REV2].
10. International Trade Centre, *Report of the ITC Executive Forum on National Export Strategies*, p. 30.
11. *Global Economic Prospects and the Developing Countries 2001*, World Bank.
12. This section is based on contributions by Costas Michalopoulos, Special Advisor, World Bank; and Margriet Kuster, Ministry of Foreign Affairs, Netherlands. It draws on discussions held in Stockholm at the "Globcom" Conference on "Poverty and the International Economy", 20-21 October, 2000.
13. For a fuller dimension of the various export development strategies and the trade offs involved, see *Global Economic Prospects 2001*, Chapter 2.
14. See "Redefining Trade Promotion", ITC (2000), for some concrete examples of how individual countries have approached the export strategy-making process and reinforced linkages between strategy and other economic and social initiatives.
15. See "On Common Ground" Converging Views on Development and Development Co-operation at the Turn of the Century (*The DAC Journal – Development Co-operation 1999 Report*, p. 121) for an account of how the international community has converged around the idea of a Comprehensive Development Framework (CDF) and similar instruments such as the CCA/UNDAF, PRSPs, etc.
16. Integrated Framework Seminar: The Policy Relevance of Mainstreaming Trade into Country Development Strategies: Perspectives of Least Developed Countries, WTO, Geneva, 29-30 January 2001.

3 Policy Constraints to Trade

Developing countries face many challenges in their efforts to improve trade performance and in the strategies they (and donors) pursue. Among the greatest of these challenges is overcoming the policy constraints to trade.[1]

Effective trade policy requires a public sector, a private sector and a civil society prepared jointly to:

- Establish and maintain a trade-supportive policy environment.
  This has typically included a liberal import regime, a sound and predictable legal and regulatory framework, rationalised and simplified customs and other administrative procedures and efficient and low-cost economic infrastructure.
- Analyse and monitor trade issues and developments at the multilateral and regional levels, formulate and implement coherent trade policies, and participate effectively in multilateral and regional negotiations.
- Implement multilateral, regional and bilateral agreements.

Trade competitiveness requires private enterprises, industrial associations, civil society groups and government agencies able to:

- Monitor and analyse foreign market opportunities, trade policies and trade institutions at the national, regional and multilateral level.
- Articulate their needs and concerns in the domestic trade policy process.
- Produce goods and services that meet the quality, design, timeliness, health, safety and environmental requirements of foreign markets and international trade agreements.
- Provide (or make use of) a variety of export- and investment-related technical assistance and advisory services, including export credit, export marketing assistance, management advice and help in complying with international product standards.

The private sector and civil society have an essential role...

There is considerable overlap between these two sets of requirements, and public and private sector actors must be active in both areas. Private sector and civil society representatives have essential roles in shaping trade policy. And almost everything that must be done to promote competitiveness has a policy dimension.

Distinguish between border barriers to trade and the "behind the border" trade agenda

Another way to look at the constraints for developing countries is to distinguish between border barriers to trade and the "behind the border" trade agenda. The first focuses on creating incentives for efficient growth by reducing the average level and the dispersion of border protection, eliminating NTBs, and strengthening the public institutions needed to ensure that goods cross frontiers with low transaction costs, that is, efficient customs regimes that do not create anti-export biases. The second revolves around regulatory standards and policies that ensure that supply responses to liberalisation are efficient, equitable and enduring. Important issues here include liberalising trade in services to enhance competitiveness, to promoting access to information and technology and strengthening institutions to benefit from participation in regional and multilateral trade arrangements.

The relative importance of these two trade agendas varies considerably across developing country partners (Table 1). The traditional border policy agenda continues to be important in South Asia and Africa[2]. The non-border agenda is relatively more important in middle-income countries, where border barriers are typically low and basic customs and trade infrastructure function adequately. As demands and priorities differ depending on the countries involved, donors must tailor their services to the needs of clients.

Principal constraints on trade development

Given the diversity in economic circumstances, it can be risky to generalise about the trade constraints facing developing countries. But many constraints affect at least a few developing countries, and several constraints affect many of them. The less advanced developing countries suffer from capacity gaps on nearly every significant policy-related or competitiveness-related requirement for trade development. Countries further along in the development process typically struggle with a narrower but sometimes quite persistent set of problems.

Gearing Up for Participation in International Trade

… still struggling to create and sustain trade-friendly economic policy environments

Low-income developing countries confront a wide range of constraints and capacity gaps in their effort to make effective trade policy and exercise their rights and obligations in international trade. Many of them are still struggling *to create and sustain trade-friendly economic policy environments:*

- Inflation, public deficits and interest rates remain high in many countries.
- A variety of policy-related disincentives or constraints hinder exports, including export taxes, overvalued currencies and capital controls.
- Exports are also burdened by a variety of import protection, including high and variable tariffs and quantitative restrictions. Some LDCs, in particular, raise significant amounts of revenue from tariffs, which makes them reluctant to embrace full import liberalisation.[3]
- The policy and regulatory regimes of many countries are characterised by a lack of transparency and predictability. Corruption undermines economic efficiency in some countries.

… limited capacities to formulate and execute trade policy and negotiate and implement trade agreements

The governments, private sectors and civil societies of many developing countries have limited capacities *to formulate and execute trade policy and negotiate and implement trade agreements:*

- Knowledge of multilateral and regional trade policies, institutions and agreements is limited in most LDCs and many other developing countries. Trade ministries tend to be poorly informed about WTO and regional agreements and rules, and other government officials and private sector actors tend to be even less knowledgeable.[4]
- Knowledge, skill and resource limitations make it difficult for many developing countries to negotiate effectively, implement trade agreements, meet ongoing trade obligations and defend their trade-related rights. Many countries report that they are especially deficient in the knowledge and technical skills necessary both to shape and to comply with the growing number of technical provisions and environmental, health, safety and product quality standards found in multilateral and regional trade agreements. LDCs, in particular, lack the human and financial resources to carry out the institutional and regulatory reforms necessary

Table 1. Priorities in different types of countries

COUNTRY-TYPE / REGION	NATIONAL PRIORITIES				INTERNATIONAL CO-OPERATION	
	Traditional trade agenda		New trade agenda		Traditional trade agenda	New trade agenda
	POLICY	INSTITUTIONS	POLICY	INSTITUTIONS		
LIC, weak institutions (Sub-Saharan Africa)	Lower tariffs; dispersion; shift to domestic tax bases	Strengthen customs; drawback; temporary admission	Measures to enhance efficiency of transport and transit regimes; phase out monopolies	Develop national capacity to design regulatory policies; protect indigenous knowledge, assets	Build capacity to participate in negotiations	Assess development relevance of international co-operation; impact of regulatory norms (SPS, TBT)
LIC, strong government (Southern Africa)	Reduce border barriers	Reduce red tape; adopt Kyoto trade facilitation measures	Services liberalisation; emphasis on competition as opposed to change in ownership	Upgrade public standards setting and enforcement bodies; protect indigenous knowledge, assets; pro-competitive regulation	Use international agreements to reduce border barriers	Use international agreements as anchors for domestic policy
Transition (Europe and Central Asia)	Maintain relatively low and uniform tariffs	Develop customs and related infrastructure; regulations	Develop legal and regulatory regimes for services	Develop national capacity to design regulatory policies	Build capacity to participate in negotiations	Use international agreements as anchors for domestic policy; negotiate improved market access for natural persons
MIC, low protection (Latin America & Caribbean, E. Asia & Pacific)	Limit extent of discrimination resulting from RIAs	Adopt Kyoto trade facilitation measures	Enhance technology policies; E-commerce; develop competition policy	Develop WTO-legal, appropriate IPR regime and institutions;	Explore scope for common standards and trade procedures	Explore scope for common standards in regulatory areas affecting trade and investment
MIC, high protection (Middle East & North Africa)	Significantly reduce border barriers; limit discrimination from RIAs	Reduce red tape; implement Kyoto trade facilitation measures	Services liberalisation; end monopolies; draft competition law	Pro-competitive and prudential regulation; establish competition authorities	Use RIAs to reduce red tape, facilitate trade	Use international agreements as focal points and anchors for domestic policy

Source: World Bank.

to implement the provisions in these agreements. Many LDCs also lack the ability to defend their trade interests effectively or to seek redress through WTO's dispute-settlement system.

- Many developing countries find it difficult to pursue effective multilateral, regional and bilateral trade policies simultaneously. Some middle-income developing countries that are able to play leadership roles in regional trade arrangements serve largely as bystanders in the WTO.
- The promise of regionalism is still far from being fulfilled. Most members of ECOWAS, SADC and COMESA, three of Africa's principal sub-regional trade arrangements, still trade more with the EU than they do with each other.
- Deficiencies in trade-related expertise, analytical skills and negotiating skills are a product of small staffs, limited resources for hiring and training, inadequate experience and high turnover. Most African LDCs, for example, have fewer than five officials assigned to work on trade policy issues full-time.[5] Governments have difficulty recruiting and retaining talented people for government jobs that typically offer lower pay and status than private sector jobs.
- The effectiveness of trade policy-making is also constrained in most LDCs, and many other developing countries, by limited government and private sector access to information on international trade developments, issues and agreements. In LDCs, in particular, the problem has been aggravated recently by the growing international gap in access to information technology. The dissemination of policy-relevant trade information is often inconsistent in developing countries. In three of the four case study countries for this project, for example, governments lacked reliable mechanisms for ensuring that trade-related information was distributed to all relevant officials or private sector actors.
- Trade policy co-ordination is weak in many countries. Responsibility for trade-related policies is often dispersed across different ministries.[6] Ministries of finance, which exercise significant influence over trade policy through their control of the purse, sometimes resist trade liberalisation measures that reduce tariffs and other trade-related revenues. Ministries of foreign affairs usually take the lead in trade negotiations and staff WTO missions, but they often lack expertise on trade issues and have only limited roles in the formulation of trade policy back home. Trade ministries themselves often have other responsibilities beyond trade, such as industry or tourism.
- Many developing countries lack coherent trade development strategies. Some governments lack the capacity to analyse the strengths and weaknesses of their economies or of key sectors. Trade is not a top priority for the governments and enterprise sectors of some developing countries, however, and trade policies are often not well-integrated into national development strategies.[7]
- Mechanisms for consultation on trade policy among governments, the private sector and civil society are weak or non-existent in most LDCs and many other developing countries.[8] The involvement of the private sector in policy deliberations is "largely ad hoc and limited".[9] In LDCs, in particular, the lack of competent enterprise sector and civil society interlocutors is an impediment to policy dialogue. Business associations often have small memberships and limited staff. Labour unions, NGOs and other civil society groups are often poorly funded and lacking in expertise, advocacy skills and access to information. Government officials are often unaccustomed to interacting with the private sector. The absence of regular dialogue leaves governments poorly informed about the private sector and without the benefit of its advice.[10]

- Small staffs and limited expertise diminish the effectiveness of the WTO missions of many developing countries. Fewer than 20 African countries have full-time representation at the WTO, and the rest often rely on a few officials to cover the WTO along with all the other international organisations based in Geneva.
- Few developing countries have strong, independent institutions capable of performing research and analysis on trade policy matters. And absence of effective data collection and analysis further undermines the quality of trade policy in many developing countries. In some cases, poor data collection is a consequence of weaknesses in customs and other kinds of trade-related legal or regulatory enforcement.[11]

Promoting Competitiveness in the Enterprise Sector

In their efforts to improve export competitiveness and attract foreign investment, developing country enterprises and governments face challenges in three broad areas: the production of exportable goods and services, trade and investment facilitation and support and market access.

Export production

A wide range of challenges makes it difficult for developing country enterprises to produce goods and services that meet international design, quality and packaging standards – or to shift to higher value-added lines of production. Private sector representatives from developing countries, including business people interviewed for the Ghana and Senegal case studies and participants in the May 2000 DAC workshop, frequently characterise their difficulties designing and manufacturing exportable goods as the most significant obstacle to improved export performance. The report of the ITC's 1999 Executive Forum affirmed this point. The principal challenges in export production include the:

- Weak, inefficient and costly economic infrastructure, including telecommunication systems, roads, railways, utilities, ports and airports.
- Limited availability of critical production inputs at competitive prices, due to import constraints and inadequate market leverage.
- Limited availability and high cost of capital.
- High production costs and low quality, due to the foregoing factors and the scarcity of skilled labour.
- Limited access to cutting-edge production technology and limited technical know-how.
- Product and packaging designs that do not meet international specifications.
- Poor information on foreign tastes and product standards (health, safety, environment or quality), and on the provisions of regional and multilateral trade agreements.
- Weak management skills.
- Absence of standards and quality testing labs and related technical support services.
- Limited access to information technology for product design, input sourcing and manufacturing processes.

Box 6. Promoting competitiveness of Ugandan flowers

Market-oriented assistance at the industry level can be a catalyst for export success in LDCs. Ten years ago the only roses grown in Uganda were in individual's gardens. Starting in 1993, the USAID-supported Ugandan Agricultural Development Centre set out to identify demand in the global marketplace and develop agricultural products that Uganda could produce to meet that demand.

One area that appeared promising was to sell air-freighted roses at auction in the Netherlands. The Centre worked directly with self-selected Ugandan farmer entrepreneurs. Starting from market demand and working back, the Centre helped to define the product, quality standards, marketing channels, production process, business operation and financing required. Specialised consultants – expatriate and local – worked closely with Ugandan producers, transporters and financial institutions, assisting them to grow, batch, finance and transport production on schedule.

The results have been nothing short of spectacular – 22 farms now grow cut flowers. Sales have climbed from zero to 133 million stems a year, with export earnings of $14 million in 1998. The cut flower industry in Uganda now employs 3 300 people, 75 per cent of them are women, and offers a daily wage three times higher than competing opportunities in the surrounding areas. Ugandan producers have diversified into chrysanthemums and other varieties. Cut flower business associations have started up and flourished.

The market-oriented approach in Uganda was a precursor to a new approach now being applied by USAID and a number of other donors. Through "competitive analysis," the relative strengths of an industry compared to its global competitors are assessed. Government and private sector actors in the industry, together, identify opportunities and impediments to improved industry performance in global markets. Together, working backward from market demand, they identify steps to overcome constraints and improve industry performance.

- Limited direct foreign investment (a valuable source of plant, equipment, technology and training).[12]
- Limited availability of business support services – the enterprise associations, private firms and government entities that provide technical assistance on many of the foregoing supply-side constraints.

Trade and investment facilitation and support services

Moving beyond the production of exportable goods, one can identify a number of other problems relating to export and investment transactions. These constraints make it difficult for developing country enterprises to find buyers for their products, source inputs, attract investment and move goods and services efficiently from workshops, plants and offices into foreign markets (Box 6). They include the following:

- Weak, inefficient or costly trade-related infrastructure, including storage and refrigeration facilities.
- Limited capacity to acquire and analyse information on foreign market opportunities, and inadequate knowledge of international business practices.
- Limited export marketing experience, including negotiating skills.
- Inadequate knowledge of rule of origin, design, health, safety and environmental standards in trade agreements and foreign markets.
- Inefficient and corrupt customs administration and other trade-related administrative procedures.
- Inadequate or costly capital for the financing of exports, investment or other links with foreign firms.
- Limited knowledge of import and export administration.
- Ineffective government and private sector export and investment promotion services.

- Limited application of information technology to market research, transaction management and links with buyers, suppliers, shippers and others.
- The lack of competent business associations and trade services firms to help enterprises identify markets, assemble financing, process export sales and manage transactions.[13]

Market access

… essential to the success of any trade development strategy

Finally, a number of factors make it difficult for developing country exporters to gain entry to foreign markets. Market access is clearly essential to the success of any trade development strategy. New markets are also valuable because they catalyse the development of capacities needed to take advantage of them. The emergence of a new market opportunity often triggers investment and entrepreneurial activity and generates new business for suppliers and service providers that may have little direct involvement with the external sector. Greater access to the markets of other developing countries will also be an important element of trade capacity building as this will promote integration at the regional level, often an important stepping stone to global integration.

Many developing countries, and all of the LDCs, enjoy preferential access to most industrial country markets under GSP, the new ACP agreement, and selected provisions in regional and multilateral agreements. But this access is neither unlimited nor permanent. A number of developing country exports are subject to tariff peaks and tariff escalation, which make it difficult for enterprises to add value to their exports. Furthermore, a variety of special access provisions are being phased out – ACP preferences, for example – and the Uruguay Round and some regional trade liberalisation initiatives have diminished the preference margins enjoyed by developing countries. Many countries lack sectoral strategies or trade policies that respond to the erosion of preference margins and the termination of special market access programmes.

Many developing country governments believe that industrial countries have not faithfully implemented certain Uruguay Round liberalisation commitments. Some contend that new barriers to their exports are being substituted for tariff and non-tariff barriers eliminated under the Uruguay Round.

As noted earlier, developing country exporters are also having difficulty complying with complex rule of origin provisions and a growing array of foreign performance, health, safety, environmental, and other standards. The inability to certify that their products meet industrial country import requirements can be a very costly capacity gap for many developing country exporters. Developing country governments further worry that industrial countries are using quality standards to protect their markets. International standards are set in trade agreements and, increasingly, in standard-setting negotiations led by private sector representatives. Governments and private sector actors in many developing countries, especially the LDCs, lack the training and expertise necessary to participate effectively in these standards discussions.

Finally, many of the less advanced developing countries have limited capacity to defend their market access rights. While developing countries as a whole are making increasing use of anti-dumping measures, the LDCs are often unable to mount cases in the WTO's dispute-settlement system and have difficulty contesting anti-dumping and countervailing duty actions.

Notes

1. Success in trade development is defined here broadly to mean a sustained increase in the volume, diversity, and value-added of exports, and an increased inflow of foreign direct investment that yields export gains, helps upgrade production technologies, and increases employment. A number of developing countries, including El Salvador and Vietnam, two of the case study countries for this project, have recorded large recent gains in export earnings without substantial diversification in the product mix of their exports or the identity of their top foreign markets. Bangladesh, to offer another example, has experienced large export gains during the past two decades, but just four products account for over 90% of its manufactured exports, and half of its total exports go to just three foreign markets. Countries like these would be considered qualified or partial successes under the definition used here.
2. Viz. *Africa in the 21st Century*; numerous DRG trade team papers; and the GEP 2001.
3. During the DAC's May 2000 workshop, Jose Manuel Salazar pointed out that it may sometimes be easier for developing countries to collect export and import taxes at their borders than to collect taxes internally.
4. In response to a recent Japanese government survey, the Chinese government rated the capacity of its trade ministry to handle the country's WTO obligations as "unsatisfactory" (Japanese APEC technical assistance survey). In its Integrated Framework Needs Assessment, the government of Mozambique said that "specific information and understanding of WTO agreements and their impact on a range of sectors is negligible at both the public and local private sector levels". The government also characterised its trade analysis and negotiating capacities as "severely limited" (p. 3). In a report prepared for an Integrated Framework donors meeting, the Tanzanian government characterized its own and the Tanzanian private sector's understanding of Uruguay Round agreements as "very weak" (Final Report, p. 22). In its Integrated Framework Needs Assessment, the government of Uganda described its trade analysis and negotiating capacities as "almost non-existent."
5. P. Lance Graef, "Building WTO Expertise in Sub-Saharan Countries". Paper prepared for WTO-Related Technical Assistance Symposium for Sub-Saharan Africa, Seattle, Washington, 29 November 1999, p. 3.
6. In his case study of Ghana, Solignac-Lecomte concluded that the dispersion of authority across several ministries has harmed the effectiveness of trade policy in Ghana. In a paper prepared for a donor's meeting under the Integrated Framework, the government of Tanzania explained that trade was suffering from the absence of a single government agency with lead responsibility for export development. (Ministry of Industry and Commerce, Government of Tanzania, "Report Prepared for the Consultation on Trade-Related Assistance", 13 November 1999, p. 13.)
7. According to a UNDP strategy paper for trade capacity building in Africa, "Despite the general endorsement of export-led development as one of the few options for most countries in Africa, few governments have elaborated a comprehensive and coherent strategy to promote trade". ("Supporting Capacity Building for Trade and Development in Sub-Saharan Africa: A Framework Paper", Fifth Inter-Country Programme for Africa, Regional Bureau for Africa, UNDP, 8). It has been suggested that developing countries that have not made trade a top priority may in part be taking cues from donors, some of which have not made trade a priority in their assistance programmes.

8. A recent assessment of the African Enterprise Network initiatives concluded that in most African countries, "There is generally no established process for permanent dialogue and exchange of information between the public and private sectors on trade issues". ("Case Study of East African Enterprise Network, Southern African Enterprise Network, West African Enterprise Network", prepared by Deborah Orsini, Management Systems International, Washington, D.C. Reprinted by DAC/OECD as document DCD (2000)10/ANN5, p. 18.)

9. T. Ademola Oyejide, "Interests and Options of Developing and Least-Developed Countries in a New Round of Multilateral Trade Negotiations", G-24 Discussion Paper Series (UNCTAD and the Center for International Development, Harvard University), May 2000, p. 23.

10. The Tanzanian government told donors participating in the Integrated Framework that "The capacity weakness among exporters is a cause and a consequence of the absence of a formal mechanism for dialogue between the government and exporters". (Ministry of Industry and Commerce, Government of Tanzania, "Report Prepared for the Consultation on Trade-Related Assistance", 13 November 1999, p. 21.)

11. The Tanzanian government estimates that "unrecorded" exports could be more than twice as large as officially recorded exports. Even a disparity half as large would indicate a data collection deficit that would substantially undermine the analysis required for effective policy-making. The fact that large amounts of trade occurs in the informal economy in Tanzania – a situation replicated in other developing countries – suggests that governments are also failing to collect potentially large amounts of tariff and other trade-related revenue.

12. Factors contributing to the scarcity of direct foreign investment in many developing countries include poor infrastructure, inadequate skilled labour, the small size of many developing country domestic markets, capital controls, unstable legal and regulatory systems, lack of continuity in economic policy, cumbersome administrative procedures, corruption and concerns about political instability or conflict.

13. In its Integrated Framework Needs Assessment, the government stated that Bangladesh was host to 135 business associations and 55 chambers of commerce, but that only 16 of these groups were able to provide trade promotion services. (Needs Assessment, p. 12.)

4 Formulating a Durable Policy Framework for Trade Development

Developing countries wishing to improve their trade performance obviously face many challenges. Capacity gaps need to be addressed in a wide range of areas, often simultaneously, and an unusually diverse array of stakeholders needs to be engaged. And trade development efforts need to be embedded, or mainstreamed, in a broader development framework encompassing a poverty-reduction strategy, sound macro-economic policy, adjustment mechanisms, and policies designed to stimulate private enterprise. Finally, the continuing evolution of the global economy, of the institutions of the MTS and of individual developing economies means that the character of trade development challenges will change over time.

Help put in place effective and sustainable trade policy frameworks and processes

The breadth, complexity and continuing evolution of trade development challenges have led towards a consensus that one of the principal objectives of trade capacity building should be to help developing countries put in place effective and sustainable trade policy frameworks and processes. Indeed, the record suggests that no country has been able to achieve substantial gains in trade without an effective trade policy framework. Such a framework and process will, of course, be constructed from a set of discrete institutions and arrangements, each of which needs attention from developing countries and donors. But the collective efforts of donors and developing countries should be guided by a vision of a trade policy process capable of implementing a trade development strategy rooted in an overall national development strategy (Figure 2).[1]

This approach has several things to commend it. A sound trade policy framework and effective policy process will:

- *Enable developing countries to address a wide range of trade-related challenges and opportunities – including those that cannot be anticipated – over an extended period.*
- *Enable developing countries to sustain and upgrade trade-related capacities after donors have departed, permitting dependence on external assistance gradually to decline.* The participatory character of effective trade policy-making (discussed in more detail below) will help strengthen local capacities, as stakeholders "learn by doing" and learn from each other.
- *Facilitate local "ownership" of trade development efforts.* The involvement of a wide range of actors in the trade policy process will facilitate genuine local "ownership" of trade development and ensure that trade strategies and policies are demand-driven.
- *Reduce the risk that developing country trade policies will be influenced by the trade policy priorities of donors.* A decrease in external assistance and an increasing reliance on local capacities will minimise the chance that a developing country's trade policies will be skewed by the commercial or trade policies of donors.

The Trade Policy Cycle

There is no single correct way to structure the trade policy framework, and no two countries will adopt the same approach. Yet every country, regardless of the course it chooses, must master the same four-staged policy cycle: formulation of trade policy and strategy; preparation and execution of negotiating strategies; implementation of agreements; and monitoring and evaluation of policies and agreements.

… must be broadly inclusive

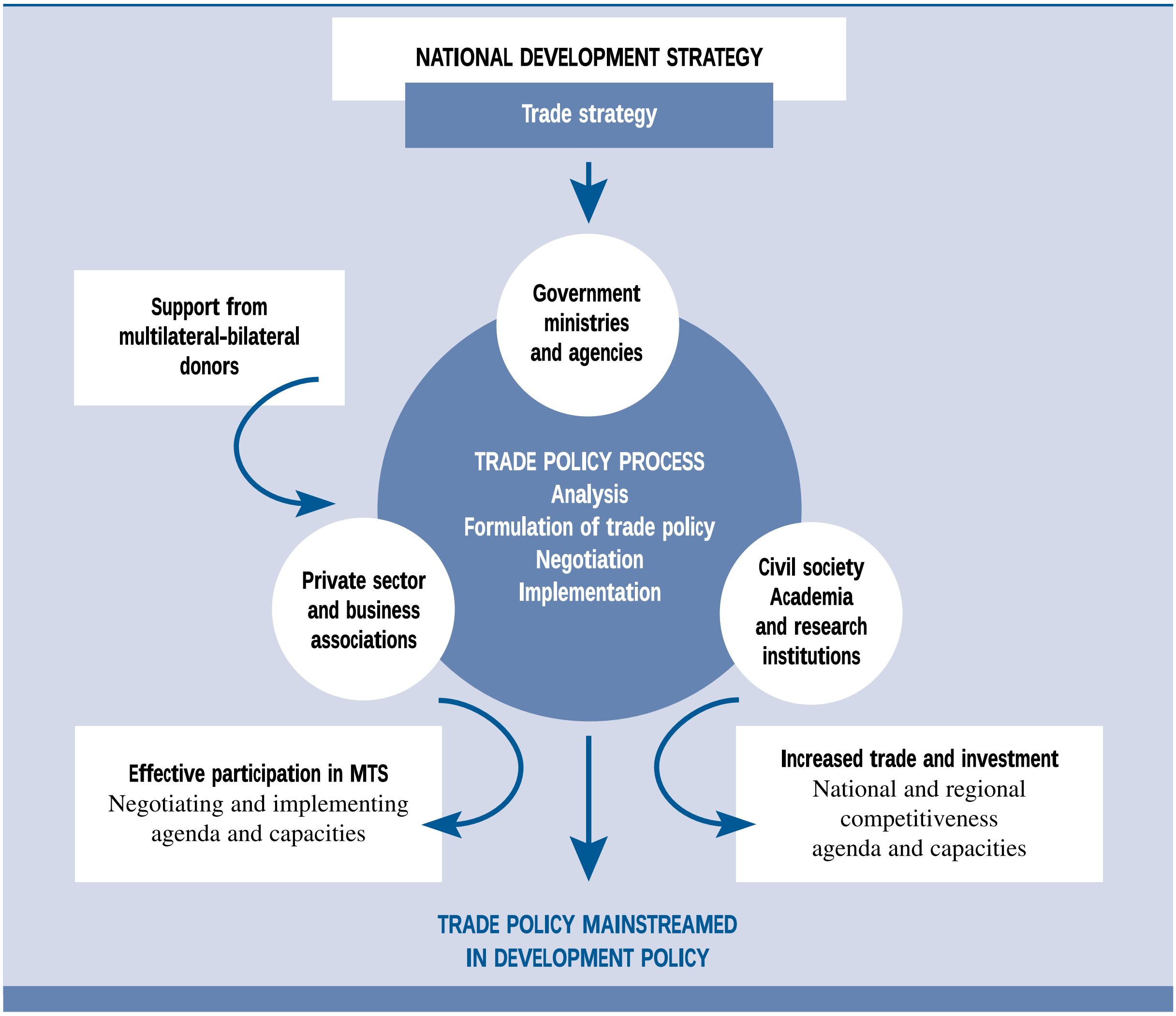
- *The formulation of trade policy* must be broadly inclusive, involving significant contributions from the enterprise sector and civil society. It is also heavily analytical. Governments must have a sophisticated understanding of the principal regional and multilateral agreements to which they are parties and of the international commercial developments that affect their economies. They must have the data collection and analysis capacities to understand the strengths and weaknesses of their economies as a whole, and the particular challenges facing individual sectors. Enterprises must have an understanding of their own competitiveness problems and a sense of the opportunities available to them in international markets. Civil society groups need a capacity to monitor the economic and social impact of trade-related policies and developments.
- *The preparation of negotiating positions and strategy* also needs to be broadly inclusive. To produce satisfactory agreements, negotiators need a detailed understanding of the interests, concerns and capacities of key domestic stakeholders. Governments need to know what key constituencies hope to achieve through negotiations and what they are prepared to give up. A number of developing countries have addressed this requirement by inviting representatives of industrial associations and NGOs to join official trade negotiating teams. As trade negotiations proceed, negotiators also need to know whether, from the perspective of the relevant government departments, various negotiating proposals can be successfully implemented. If the formulation of trade policy and negotiating positions has been characterised by inclusive consultations, the outcome of negotiations is likely to be considered legitimate by non-governmental stakeholders and implementable by the principal policy actors.

Responsibility for implementation may reside in…

- *Responsibility for implementation* may reside in a number of government departments and the legislature. Indeed, trade ministries may play only a secondary role in the implementation of agreements. The difficulty and cost of implementing trade agreements will therefore depend on the capacities and priorities of a range of government departments.
- *Monitoring and evaluating* international trade developments, policy and agreements will, again, require frequent input from enterprise and civil society stakeholders and policy co-ordination among a wide range of government departments.

A defining feature of the trade development status of many least-developed countries today is the absence of the human resources and institutions necessary to conduct each of the four stages of the trade policy cycle competently. Most middle-income countries, by contrast, have built working trade policy machinery in recent years, though many still seek to strengthen capacities important to its effective functioning. It is difficult to overstate the importance of the requirement that donor strategies always be carefully calibrated to the needs of countries at different income levels.

Figure 2. National development strategy and the trade policy process



Although it is not possible to describe a single policy framework that is ideally suited to promoting trade, recent capacity building efforts point to several features or arrangements that have tended to promote success. Donors and developing countries should seek to construct trade policy frameworks with the following elements:

- A coherent trade strategy that is closely integrated with a country's overall development strategy.
- Effective mechanisms for consultation among three key sets of stakeholders: government, the enterprise sector and civil society.
- Effective mechanisms for intra-governmental policy co-ordination.
- A strategy for the enhanced collection, dissemination and analysis of trade-related information.
- Trade policy networks, supported by indigenous research institutions.
- Networks of trade support institutions.
- A commitment by all key trade stakeholders to outward-oriented regional strategies.

Box 7. The Philippines approach

- Enshrine export development as a priority in law
- Formally integrate export development into the national economic development plan
- Institutionalize the public-private sector partnership through a joint apex co-ordinating organisation and strategy implementation teams
- Designate one umbrella organisation to represent the private sector's concerns and interests
- Implement export promotion in tandem with industrial development and investment promotion strategies
- Cluster sectors on the basis of common priority export support needs
- Regularly monitor and update the strategy

Based on the report prepared for the 1999 Executive Forum by Maria Rosario Q. Franco, independent Trade Strategy Consultant, Manila.

A Coherent Trade Strategy

… the indispensable point of departure

A carefully designed, mainstreamed trade strategy – a vision of how a national economy, given its strengths and weaknesses, should link with the global economy – is the indispensable point of departure for successful trade development. Without such a blueprint, it will be difficult for countries to set goals and evaluate progress towards them, to assign responsibility for critical tasks, to conserve scarce financial resources and personnel and to make good use of available development assistance. Indeed, there are no cases of developing countries that have made major advances in trade performance without such a strategy. But many countries that have yet to experience an export take-off (including Ghana, one of the case study countries for this project) have lacked coherent trade development strategies.

A trade strategy must address critical questions

A trade strategy must address critical questions:

- What are the principal barriers to trade development and how can they be addressed?
- What should be the country's policy stance with respect to its regional trading partners?
- What should be its priority objectives in multilateral trade negotiations, and what should it be prepared to concede?
- What macroeconomic or structural policy adjustments will be needed to support an export and investment take-off?
- What are the principal challenges related to infrastructure policies, investment and trade financing?
- How should a trade development plan be linked to the larger development framework?
- How can the contribution of trade to poverty-reduction be maximised?
- What are the likely impacts of trade-induced price changes (especially in agricultural products) on household expenditures, consumption and poverty levels?
- How will trade liberalisation affect relative prices in the tradables and other sectors? Are there specific labour or social rights of women that are vulnerable?
- How is trade liberalisation affecting the gender division of labour between and within sectors?

Box 8. Lessons from Japan-Vietnam Joint Research (JVJR)

The purpose of the JVJR is to assist Vietnam with analysis and policy advice in the course of implementing the Vietnamese Five-year Plan for Social and Economic Development which includes a broad economic reform agenda. The JVJR has focused specifically on securing participation in the research from key Vietnamese stakeholders, in particular, the Vietnamese Ministry for Planning and Investment and staff from the affiliated Institute for Development Strategies and the Central Institute for Economic Management. Other Ministries, the Vietnam National Bank and National Economic University have also contributed. The success of the programme has been due to continuous dialogue with counterparts, a respect for ownership, and the opportunity for the Vietnamese to understand and choose from several policy options.

- What are likely to be the adverse social or economic consequences of trade expansion or new foreign investment?
- What role should enterprise and civil society stakeholders play in the trade development effort?
- What roles are these stakeholders able and willing to play?
- Where will any additional resources needed for trade development come from?
- What should be requested of donors?

To be durable and effective, the trade policy framework must be characterised by…

Many developing countries will welcome donor support for their initial effort to design a trade development strategy. As noted earlier, though, a principal goal of donor support should be to help developing countries establish a durable and effective framework through which they can continually revise and update trade strategy and policy on their own. To be durable and effective, the trade policy framework must be characterised by two critical and overlapping consultative processes, one bringing together governmental and non-governmental stakeholders and the other involving policy-makers.

Consultation Mechanisms

The formulation and implementation of sound trade development strategies and policies require concerted consultation among senior representatives of three key sets of stakeholders: government, the enterprise sector and civil society institutions like trade unions and consumer, environmental and social justice NGOs. The precise way this consultation is structured is less important than the seriousness with which it is treated by the participants, the fidelity with which they represent the views of their constituencies and the quality of the leadership the consultation provides to the trade policy process.

… reach agreement on national trade development goals

The initial objective of stakeholder consultation should be to reach agreement on national trade development goals and a plan for achieving them. A stakeholder consultative group may also be charged with the continuing refinement of trade strategy in response to success, failure, and changing circumstances. The same body, or perhaps a group of deputies, can also be assigned a role in providing guidance on the policies and practices through which the national trade strategy is implemented. Another potentially valuable function – for which private sector participation is essential – may be to help co-ordinate the provision of trade support services. Finally, a commitment by senior officials to a formal, ongoing trade policy dialogue will signal high-level concern about trade, bolstering the dedication of mid-level officials, executives, and other participants in the policy process.

Box 9. Examples of consultative mechanisms

The Philippines Export Act gives the Export Development Council, an apex body, overall responsibility for formulating and co-ordinating the national export development effort. The Export Development Council includes eight cabinet-level representatives and nine private sector representatives. The Council, chaired by the Secretary of the Department of Trade and Industry, meets monthly, "ensuring that export development and the monitoring of the strategy remain an on-going pre-occupation among senior policy-makers and business leaders".[2] The work of the Export Development Council is supported by a set of "networking committees," private sector-led bodies that make recommendations on specific sectoral matters.

The government of Mauritius meets twice annually with the Joint Economic Council, a grouping of the country's leading private sector associations, including the Chamber of Commerce and Industry, the Chamber of Agriculture, the Mauritius Employers' Federation, and organisations representing many of the leading industrial sectors or interests. Representatives of the Joint Economic Council have also served on the country's negotiating team for Lomé and other regional and multilateral trade agreements. In addition, the government, trade unions, and the Employers' Federation consult on trade and other economic matters in regularly scheduled tripartite meetings.[3]

Who should participate in national trade policy consultations?

Who should participate in national trade policy consultations? Governments will need to be represented by senior officials from all of the ministries or departments with responsibility for trade-related matters. Legislators should also participate. The enterprise sector should be represented by the officers of leading industrial and agricultural associations, and civil society by trade union and NGO leaders. Consultative mechanisms have been set up successfully in a number of the more advanced developing countries (Box 9).

A critical first step toward building effective stakeholder dialogue…

Many developing countries, however, especially the LDCs, lack enterprise associations with the competence to advocate for industrial or sectoral interests in the national policy process or in international markets. Many NGOs are also poorly organised and funded and have limited access to policy-makers. Given the weakness of many of LDC enterprise associations and NGOs, a critical first step toward building effective stakeholder dialogue in some countries will be to support the development of private institutions that can be effective interlocutors with government. Indeed, in these and other countries, a wide range of donor support may be needed to launch effective national trade policy consultations. Several donors, as well as industrial country NGOs and business associations, are already offering technical assistance and training to governments, business groups and NGOs participating in national trade strategy exercises. The goal of assistance in this area should be to help draw into trade policy consultations as wide a range of trade policy perspectives as possible, including those of stakeholders concerned about potentially adverse consequences of trade development.

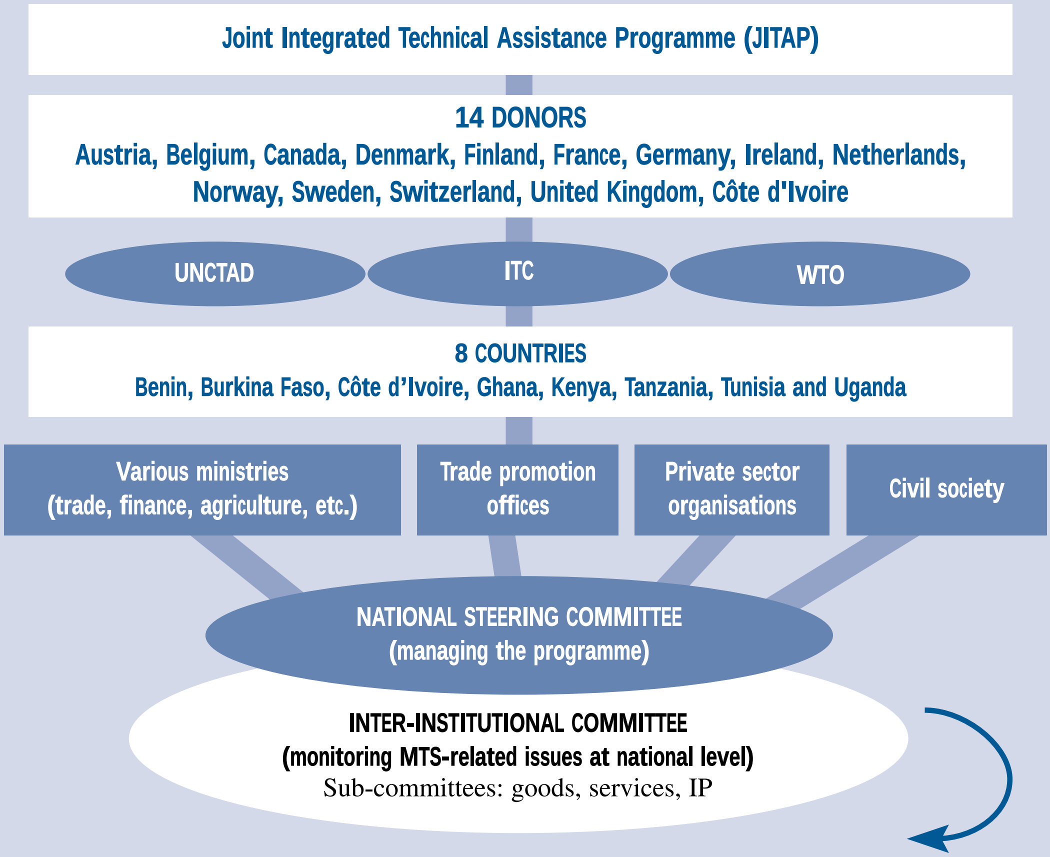
…successfully brings key stakeholders together …

An initiative that has successfully brought key stakeholders together through donor support is the Joint Integrated Technical Assistance Programme (JITAP) managed by the WTO, the ITC and UNCTAD (Figure 3). A key component of this programme is the development of national networks of persons having substantive knowledge of MTS issues.

The architecture of JITAP provides an enlightening perspective on the scope of trade-related technical assistance (the clusters) and who the actors are. The key features:

- An integrated approach to capacity building, addressing a wide range of issues – the 15 clusters – which are critical to the active and productive involvement of the programme countries in the multilateral trade system.
- The inclusion of a wide variety of stakeholders both as actors and beneficiaries: various ministries, trade promotion offices, private sector bodies, civil society.

Figure 3. Joint Integrated Technical Assistance Programme



Objective	Activities
Assistance to customs	Demand-led TA for implementation of CVA, etc.
Legal adjustment and business environment	Demand-led TA
Resource centres on MTS	Documentation and internet access for administration, businesses and academics
Trade information management	Review of national trade information services, development of a national network of trade information producers and providers
Networks	Internet-based discussion facility for programme partners and national networks
Human resource development; improvement of MTS knowledge	Training of trainers in MTS
Analysis of MTS impact on national economy and trade policy adaptation	Study + symposium
Formulation of sectoral export strategies	Human resource development; assessment of export and market potential
Formulation of firm-level export strategy	Trade secrets, the export answer book for SMEs
Export financing	Generic manual on how to approach banks; analytical studies on export financing arrangements
Quality management and export packaging	Support to national enquiry points (within national standards bodies).

Notes: TA – technical assistance
CVA – Customs Valuation Agreement
MTS – Multilateral Trading System

Box 10. Can an integrated approach work?

Joint programming by ITC, UNCTAD and WTO: The Joint Integrated Technical Assistance Programme (JITAP)

The ITC-UNCTAD-WTO Joint Integrated Technical Assistance Programme (JITAP, see www.jitap.org) – implemented since mid-1998 in eight countries* – constitutes an innovative approach involving joint programming among UN agencies. Its experience so far offers extensive insights into the methodologies and mechanisms for trade-related technical assistance (TRTA).

The October 2000 Mid-Term Evaluation report concluded that JITAP was making a valuable contribution to the more active involvement of beneficiary countries in the MTS, and provided the most comprehensive framework for TRTA at the country level. In most cases, it was actually the only effective attempt at enhancing a country's capacity to handle the various aspects of participation in the MTS.

Response from beneficiaries has been good in most cases.

Implementation was a bit slow in the early stages, mostly due to the requirements of an elaborate programming exercise, but impact was already tangible, particularly in terms of awareness of MTS-related issues, human resource development, capacity building in the various national agencies and enhanced dialogue among stakeholders.

Co-ordination among the agencies has been good, especially in the programming and in the early stages of implementation. It is seen as clear indication that an integrated approach CAN work, although continuous attention and a re-boost at certain moments may be necessary.

Improvement and consolidation are needed in certain areas: more flexibility overall; a more active involvement of entrepreneurs (which implies finding new ways of understanding their actual concerns and perceptions, and of reaching them); a more active involvement of universities, academics and professional trainers, including private consultants; and the establishing of partnerships in the field with bilateral and multilateral donors.

Among the many bilateral and multilateral TRTA experiences, JITAP stands out because of its unique process-oriented approach, based on a comprehensive analysis of the various aspects of trade policy making, and its attempt at not just creating "static" capacity, but at triggering an inclusive trade policy process, bringing the various stakeholders on board.

The report concluded that JITAP should be seen as a country-level catalyst for TRTA by donors. It recommended that a follow-up be considered in current JITAP countries, as well as an extension to new countries, based on a careful analysis of the realities of policy making in each country.

* Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Tanzania, Tunisia and Uganda.

Source: De Silva, L., HB Solignac Lecomte, H. Haefliger and M. Kaur Grewal, 2000, *Report Of The Mid-Term Evaluation Of The Joint Integrated Technical Assistance Programme (JITAP)*, Geneva: ITC/UNCTAD/WTO.

- A combined process- and output-oriented approach. Policy is the result of consultation and joint implementation. The dynamics of managing the programme – through sharing the responsibilities among several actors within the National Steering Committee, instead of appointing a single manager – promote an inclusive trade policy process.
- A unique joint endeavour by the three leading multilateral trade agencies to address these issues, drawing on their complementary strengths. A key factor of success is the explicit location of management in the ITC.
- A hybrid approach – a blend of country and inter-country (sub-regional) activities – to the design and implementation of programme activities (although funds pledged are largely country-specific).
- Extensive donor participation in the funding arrangements – the expected overall figure is more than $7 million, from 13 donors, for three years.
- A management model, with several layers – in Geneva, where the three agencies and the donor community are involved, a sub-regional layer, based in Kampala and Abidjan respectively for East and West Africa and co-ordinating mechanisms at the national level.

Policy Co-ordination

The second consultative process critical to effective trade policy is the one within developing country governments. As with stakeholder consultations, the machinery for successful policy co-ordination can take a number of forms. But the multilateral trading system and international markets have become much more complex over the past two decades, and the number of government entities whose expertise or assent is needed to make sound policy has grown correspondingly. Developments in international trade and investment today frequently have implications for the core work of ministries responsible for finance, infrastructure, social welfare, labour, economic planning, statistics, justice and foreign affairs. The reverse is also increasingly true: policies formulated well beyond trade ministries have implications for trade.

All the ministries and cabinet units must be systematically engaged

Yet officials in these disparate government departments do not always fully recognise the trade implications of the matters under their jurisdiction. Not surprisingly, inter-agency discussions of trade issues may be infrequent and ill-informed. To be effective, all the ministries and cabinet units whose work affects or is affected by trade must be systematically engaged in trade policy discussions.

With effective mechanisms for stakeholder consultation and for interagency co-ordination in place, developing countries can tackle a series of tasks relevant to the development and ongoing refinement of trade strategy and policy. Private sector representatives can alert policy-makers to trade and investment obstacles and take the lead in crafting sector-specific trade development strategies. Governments can preview new policy initiatives with key stakeholders. Civil society representatives can sensitise policy-makers and private sector representatives to the potential social costs of new trade policies. Internally, and in consultation with non-governmental stakeholders, governments can evaluate current strategy and policy and make necessary mid-course corrections.

Trade Information

Access to information is essential…

Access to information on international trade policy and market developments is so essential to effective policy-making and commercial success that it deserves special attention in any effort to strengthen the trade policy framework. Policy co-ordination depends critically on an unimpeded flow of information among the numerous government departments with responsibility for trade-related matters. Effective policy-making also requires access to up-to-date information on international trade policy and market developments and to trade-related materials produced by other governments and by multilateral organisations. Export competitiveness and investment development likewise require access to current information on trade rules, foreign market opportunities, and international health, safety and environmental standards. A plan for improving information flows and access needs to be a significant part of a national trade development strategy.

New information and communication technologies (ICTs) offer powerful tools

New information and communication technologies (ICTs) offer donors and partner countries powerful tools for addressing the information requirements of policy co-ordination and competitiveness. By facilitating real-time interaction and the rapid and inexpensive distribution of data and documents, these technologies can make an indispensable contribution to the flow of information within governments, between governments and key stakeholders, and between governments and international institutions. The same qualities will enable these technologies to dramatically enhance public and private sector access to vital, often time-urgent information on trade policy matters and commercial developments. Applied to commercial needs, information technology can enhance foreign export marketing, improve the access of exporters and importers to foreign market information, establish and sustain linkages between buyers and suppliers, and facilitate access to training and technical assistance. ICTs can also strengthen trade-related development co-operation by increasing the flexibility and reach, enhancing the content and reducing the cost of many kinds of technical assistance.

… Requires advanced equipment and trained technical personnel

Taking full advantage of new information resources requires advanced computer and telecommunications equipment and trained technical personnel. Providing the necessary equipment and human resources to developing countries will be costly. It is also important to recognise that the application of information technology to the trade policy process is still at an early stage. ICTs are changing rapidly, and their full potential has yet to be tapped. Assessments of their effectiveness in trade contexts are scarce, and new strategies for the application of these technologies to the policy process still need to be devised.

Trade Policy Networks

Links to non-governmental sources of trade-related research, analysis and dialogue

The analysis, information and technical dialogue that are so essential to sound trade policy cannot be produced and consumed solely by governments. Policy-makers need to be linked through informal and formal networks to non-governmental sources of trade-related research, analysis and dialogue. Networking can support the formation of a "critical mass" of human and institutional resources that overcomes the limits to sustainability inherent in the old approach to capacity development, which focused on individual countries and institutions and a small number of specialists. Governments and donors should make the construction of these networks a top trade development priority.

Trade policy networks can be formal institutions or informal arrangements – national or regional in scope. Several formal networks have been formed during the past decade, including the Latin America Trade Network (LATN), launched in the early 1990s by Faculdade Latinoamericana de Ciencias Sociales (FLACSO) in Buenos Aires, the newly formed Southern Africa Trade Network (SATRN), headquartered at the Botswana Institute for Trade and Policy Analysis and the CAPAS network (Co-ordinated African Project of Assistance on Trade in Services), launched in 1992 by the Eisenhower Center of Columbia University and UNCTAD. A central objective of each of these networks is to link researchers with trade policy-makers within a particular region. Indeed, many of the researchers involved in these networks participate in policy working groups organised by governments.

The ITC-Supported *World Tr@de Net* is one promising approach. Its objective is to address knowledge gaps on multilateral trading system issues through the creation of national and regional networks of experts and trainers. Drawn from government, enterprise associations, and academia, these specialists will help build and sustain trade-related knowledge in their respective professional communities. They will be linked to each other, and to regional and multilateral networks and information resources, through reference centres in ministries, universities, and business associations. Another networking initiative, the new Africa Knowledge Networks Forum does not have an exclusive trade focus but may still be of interest to donors and others seeking to strengthen trade-related capacities. The forum, sponsored by the Economic Commission for Africa, is intended to facilitate ongoing interaction among African research networks, policy-makers and training institutions. It plans to maintain a comprehensive database of African expertise across a range of disciplines, enabling policy-makers to track down relevant research and analysis.

Availability of indigenous research capacities

A key prerequisite for effective trade policy networking and policy-making is the availability of indigenous research capacities outside of government, in universities or independent research institutes. The record of FUSADES in El Salvador, described in one of the case studies for this project, demonstrates the potentially valuable analytical contributions that a non-governmental research institution can make to the trade policy process. Another example is the African Economic Research Consortium, a research network with institutional and individual participants from a dozen East African countries. The Consortium, supported by donors and private foundations, has had considerable success training African economists and sponsoring policy-relevant research.

Trade Support Institutions

Developing countries need to build networks of trade support institutions (TSIs)...

Developing countries need to build networks of trade support institutions (TSIs) capable of providing five kinds of services to exporters: trade policy information and commercial intelligence; export promotion and marketing, product development, financial services and training. Since no single institution or firm can provide all of these services effectively, national and regional networks of TSIs, each focused on providing a limited range of specialised services, can play an essential role in promoting exports and investment (Box 11). This network model is a departure from the traditional approach, in which a government trade-promotion organisation attempted to meet most of the trade support service needs of exporters.

A wide range of entities, both from the private and the public sector, can provide trade support services, including:

- Institutions that offer technical assistance on product quality standards (metrology, conformity assessment).
- Packaging design consultants.
- Commercial banks and other financial institutions that offer trade credits and guarantees.
- Freight forwarders and shippers.
- Trade entry points.
- Chambers of commerce and industry.
- Industrial development and investment promotion agencies.
- Research and development organisations.
- Sector-specific export councils.
- Training institutions (universities and business schools).
- Small business development agencies.
- Enterprise and professional associations (manufacturer, exporter and product sector associations).
- Consulting firms.
- Overseas commercial representatives.

An institution's comparative advantage may consist of...

Within a TSI network, an institution's comparative advantage may consist of either its built-in technical specialisation or its privileged relationships with markets, suppliers and partners. Some competition among TSIs can be productive. At the same time, though, an appropriate government entity can provide leadership and co-ordination. A centrally positioned co-ordinating entity can help the support-service chain function effectively by developing operational linkages among ministries, TSIs and the business community. A co-ordinating body can also ensure that the full cross-section of services is available.

Box 11. Development of a trade promotion network in Vietnam

Vietnam lacks a strong trade support service infrastructure. ITC, with the support of the Government of Switzerland and UNDP, is thus launching a project on trade promotion and export development in Vietnam. The first principal activity of the project is to work with a wide range of business support institutions and government ministries and agencies to draw up the blueprint of a "trade promotion network". It will draw on the experience of four countries: Australia, Switzerland, Thailand and Malaysia who are all moving basic trade support functions away from the traditional, centralised Trade Promotion Organizations towards a network of many, highly-specialised support institutions.

The network will be organised around the four basic functions of trade development and trade promotion: *(i)* trade strategy and trade promotion; *(ii)* trade information; *(iii)* product development; and *(iv)* human resource development. In the area of trade information, several information providers (Chamber of Commerce and Industry, Bar Association, a government trade information institution, a private sector web-base data provider, and others) have already established an informal network among themselves with each specialising on various dimensions of information. In the area of trade strategy and trade promotion formulation, several institutions have recently emerged that will likely form the backbone of the network in this domain including Vietrade (Ministry of Trade) and several product associations (fish, shoe manufacturing, garment manufacturing and others.) Other pieces of the network are there and/or will be developed as needed.

Private Sector Linkages

While the focus above has been on strengthening consultations and communications within the public sector and between the public and private sectors, strong linkages among private-sector organisations are also a crucial aspect of trade development. The approach of some countries is to establish and support product-specific export committees. These committees assess export constraints and opportunities and develop joint market development initiatives for co-financing with the national trade promotion organisations.

Inter-firm networking gives rise to a collective learning space

Linkages between trade and industry could be particularly important for promoting the involvement of the SME sector. According to one UNIDO representative, enterprises that occupy the same position in the value chain can, through *horizontal* co-operation, "achieve scale economies beyond the reach of individual small firms, obtain bulk-purchase inputs, achieve optimal use of machinery, and pool together their production capacities to satisfy large export orders. Through *vertical* integration with other SMEs as well as with large enterprises further along the value chain, the individual SME can specialise in its core business. *Inter-firm networking* also gives rise to a collective learning space, an 'invisible college', where ideas are exchanged and developed and knowledge shared in a collective attempt to improve product quality and to occupy more profitable market segments".[4]

For inter-firm co-operation to succeed in developing countries, it usually depends on the intervention of an external agent acting as a catalyst. This can help stimulate the creation of export-led industrial clusters and networks which can then contribute to the development of knowledge-intensive elements such as design, quality improvement and R&D.

FDI can generate a variety of outputs which enhance national competitiveness

Linkages between trade and investment are perhaps even more crucial for the LDCs' export development. FDI can generate a variety of outputs which enhance national competitiveness. FDI includes not only capital but also managerial and technical know-how, organisational skills, databases and channels of market access. The greater the linkages between locally-based affiliates of foreign companies, local enterprises and public institutions, the greater the spillovers in the domestic economy. Hence the value of integrating foreign companies fully into the national systems of production, innovation and export development.[5]

Box 12. Fostering export-oriented industrial clusters and networks

The Indian Ministry of Industry has successfully pursued a national cluster-development programme to increase the international competitiveness of the small-industry sector. Its approach recognizes that efficient and competitive clusters are characterised by strong backward and forward linkages among local firms and institutions. The lessons learned from implementing the programme include:

- **Plan demand-led initiatives.**
  Every cluster has its unique dynamics in terms of needs, available institutions, service providers and networking relationships. The initiatives that need to be taken up by the trade support institution should, therefore, fill the gaps or strengthen the perceived relationships.
- **Develop local systems and linkages.**
  Industry associations and other intermediaries, such as consortia and co-operatives, play a pivotal role in reinforcing sector support systems.
- **Focus on people.**
  Cluster and network development are essentially about bringing change in the way people from firms, institutions, government and non-governmental organisations interrelate to promote a business environment conducive to export.
- **Define evaluation criteria.**
  Conventional evaluation criteria for sales, exports, employment, etc., are not sufficient to assess the impact and cost-effectiveness of a cluster-based trade and industry linkage. Qualitative criteria – such as the degree of co-operation, development of community identity, improved relationships and enhanced leadership capabilities – are equally important for building competitiveness in the long run. Experience indicates that a minimum of three to four years is required to generate sustainable impact (in terms of both development and export objectives) at the cluster level.
- **Create institutional capacities.**
  "Cluster brokers" are an important key to this type of trade-industry linkage. Resource-building institutions need to be identified and supported. Similarly, ground-level support institutions (technical, financial and otherwise) need to be supported as part of a national export development strategy.

Contributed by Mukesh Gulati, UNIDO, New Delhi.
ITC - Executive Forum, *Redefining Trade Promotion, The Need for a Strategic Response*

Outward-Oriented Regional Strategies

... are critical to successful trade development

Outward-oriented regional strategies are critical to successful trade development – and not just for governments. The economic factors that make regional trade potentially so valuable are well-known: reduced transaction costs due to geographic and cultural proximity; the economies that can be captured when production and marketing are distributed across national borders and when capital and labour are able to move to places where they will find higher returns; and the opportunity to acquire export production and marketing experience in familiar regional markets before venturing into more competitive international ones. But regionalism can strengthen trade policy-making and competitiveness in other ways, and donors and partner countries need to think systematically about regional opportunities in a wide range of trade development planning:

As regional integration deepens...

- For those countries that are parties to regional trading arrangements, discussions with regional partners on trade strategy, trade policy and multilateral negotiating positions already figure prominently in the national trade policy process (Box 13). *But as regional integration deepens, countries will find it increasingly beneficial to co-ordinate trade policy not only for intra-regional trade, but also for developments in the multilateral trading system.*

Consultations among representatives of the enterprise sectors...

- *Consultations among representatives of the enterprise sectors of neighbouring countries can help steer policy-makers toward more effective regional policies.* Consultations among civil society representatives can help ensure the social and economic sustainability of regional policies. With the help of donors, enterprises and NGOs need to form regional networks to improve access to market-related information and to prepare themselves better to advocate business and civil society interests on a regional basis. Following the lead of their governments, some enterprises have begun to organize themselves into regional networks to

Box 13. National institutional capacity for international negotiations: inter-ministerial co-ordination and public/private sector dialogue in Mauritius

Mauritius has been putting significant efforts into regional co-operation since it joined the IOR and SADC, in addition to its membership of COMESA and the IOC. Wishing to co-ordinate its commitments in these various circles, the country has developed an institutional framework in which representatives from different government departments as well as economic operators are associated in defining Mauritius's regional co-operation.

The Regional Co-operation Division

Answerable to the Ministry for Economic Development and Regional Co-operation, the division ensures that Mauritius's activities connected with regional co-operation are co-ordinated. It has the following tasks:

- Formulating regional policy consistent with national strategy.
- Encouraging the implementation of policy intended to ensure that actions undertaken at regional and at international level are compatible.
- Developing an information base for strategic planning and for formulating regional policy.
- Promoting national dialogue between the sectors on regional matters.

In this context, the Division:

- Plays the role of an observatory for regional co-operation.
- Covers both developments affecting the members of the groups to which Mauritius belongs and more general aspects.
- Acts as secretariat for the Regional Co-operation Council.
- Prepares technical notes, reports, strategic documents and the country's contributions to meetings of the IOC, SADC, COMESA and the IOR.
- Co-ordinates regional co-operation projects.
- Advises ministers on the preparation and implementation of regional projects.
- Provides the Cabinet with regular reports on matters of regional co-operation.

The Regional Co-operation Council

The council lays down national strategy for measures taken on regional co-operation and economic integration worldwide.

This forum brings political decision-makers and representatives from the business world into the decision-making process so that Mauritius can participate actively and consistently in regional groupings and on the international scene. It has a broad mandate to identify, examine and debate regional matters to promote the development of regional co-operation in general. It acts as adviser to the government and meets under the chairmanship of the Minister for Economic Development and Regional Co-operation. It includes representatives from the public and private sectors who are in contact with the deciders and operators of the region, either on the professional level or in a personal capacity.

Source: Commission de l'Océan Indien, 1998, *L'avenir de la COI – Réflexion stratégique sur la coopération régionale dans les dix prochaines années*, Maastricht: ECDPM.

improve mutual access to market-related information and to prepare themselves better to advocate business interests in the context of regional trade arrangements. The West Africa Enterprise Network may provide a model for enterprises in other regions. Having grown rapidly since its formation in the early 1990s, it includes more than 350 participants in 12 countries. Its goals are to promote intra-regional trade and investment and to improve the regional business climate. Through formal meetings and informal contacts, its members establish new business ties, exchange market leads and experience, and discuss common policy concerns.[6]

Solutions to information access problems ...

- *Solutions to information access problems can often be more readily – and more cheaply – implemented on a regional basis.* Countries that participate in the same regional trading arrangement often have similar needs with respect to policy and commercial information. In cases like these, it may be more cost-effective for neighbours to share trade-related communication links and information resources than for each to try to construct them on their own. Linking up with each other in a common information network can also strengthen policy and commercial ties among neighbouring countries. This is another area in which donors are supporting promising initiatives. Canada, for example, has helped the Secretariat for Regional Economic Integration of the Central

American Common Market build an internet-based information system. The system, used by government officials and private sector actors in the five Common Market countries, offers documentation on Central American economic integration and detailed statistics on regional trade. Users report that the system has already provided valuable help during trade negotiations, and it may provide a model for a larger system that will support western hemisphere free trade negotiations.

Trade policy networks and indigenous research initiatives can thrive…

- *Trade policy networks and indigenous research initiatives can thrive and capture scale economies when they are extended across a region.* When countries conduct significant trade with each other, participate together in a regional trading arrangement, or have similar interests in the multilateral trading system, regional research and policy networking initiatives may be essential, not merely helpful, to the preparation of sound trade policy. Furthermore, it may be extraordinarily difficult – and probably unnecessary – to create within every country in a region a discrete, independent trade policy network and research capacity. Recognising this potential, donors are supporting regional research collaborations, backing numerous projects and exercises that bring together researchers and policy-makers from the member countries of regional trade groupings.
- *Cultural and language ties also make it possible for networks of TSIs to operate regionally.* Operational linkages among TSIs in different countries can help promote the expansion of trading links within a region. Regional links among TSIs already exist in such areas, as quality management and trade information.

Strengthen the secretariats of regional trading arrangements

- *Developing country governments and donors need to strengthen the secretariats of regional trading arrangements, whose analysis and technical assistance will be increasingly in demand as regional integration deepens.* Most regional secretariats are already struggling to satisfy requests for information, analysis, technical assistance and training. Strengthening the ability of regional institutions to provide these services is an effective – and cost-effective – way for donors to help build trade capacities that individual countries would be hard-pressed to build and pay for on their own.

Notes

1. It is important to stress here that the purpose of an effective "trade policy process" as defined here, is not merely to improve trade policies narrowly defined, but also to strengthen the capacity of public and private sector actors together to address matters that bear on export competitiveness.
2. "Country Studies: The Philippines", *Report of the 1999 Executive Forum of the International Trade Centre*, *Redefining Trade Promotion, The Need for a Strategic Response*, p. 7.
3. "Country Studies: Mauritius", *Redefining Trade Promotion, The Need for a Strategic Response*, p. 8.
4. Giovanna Ceglie, UNIDO, cited in *Redefining Trade Promotion*, ITC, 2000, page 25.
5. Khalil Hamdami, UNCTAD, in *Redefining Trade Promotion.*
6. With donor support, entrepreneurs in East and Southern Africa have also formed enterprise networks, but these are newer and thus far smaller than the WAEN.

5 Principles for Developing the Capacity for Trade

The preceding chapter described the principal elements of a durable trade policy framework that governments, key stakeholders and donors should help install in developing countries. This approach to building trade capacity has significant implications for donors.

For a long time, capacity building was synonymous with institution building, or technical assistance, with a focus on one institution or a few individuals. Today, it is becoming synonymous with building systems or networks – across institutions and individuals, often across borders, to achieve common objectives. The network promotes a critical mass of human and institutional resources that transcends the limits in the old approach. A key role for donors in trade development, and in general, is to facilitate the processes that lead to this critical mass. The following principles and approaches will help to facilitate this process in ways that are consistent with DAC's Partnership Strategy.

Capacity building is becoming synonymous with building systems or networks…

Co-ordinate trade capacity building efforts

The scope of the institution-building required to leave behind a sustainable trade policy framework – especially one characterised by regional linkages among stakeholders – is beyond the means of any single multilateral or bilateral donor. Furthermore, the required policy framework cannot operate effectively if the institutions and arrangements constituting it are assembled (or strengthened) independently. The design of the trade policy framework and trade policy process will naturally vary from country to country. But if the design is to be sound, and faithfully executed, there will clearly need to be a significant measure of donor agreement on objectives, the sequencing of activities and a rough division of donor labour. Donors must also stay in close touch for the duration of the institution-building process, ensuring that significant tasks are not neglected and that the parts of the framework work together as intended.

… beyond the means of any single multilateral or bilateral donor

The regional dimensions of an effective trade policy process further increase the urgency of donor co-ordination (Box 14). Co-ordination among the donors active in a given region is essential to the successful implementation of regional initiatives in stakeholder consultation, strategy and policy co-ordination, information access, trade policy networking, research and trade support services.

Both at the national and the regional level, improved donor co-ordination is not only more likely to promote more effective trade policy-making – it will also save donor resources and make them more productive. By co-financing a trade policy framework, donors will also be able to conserve funds, share risk, and leverage their own investments.

… will also save donor resources and make them more productive

Box 14. The EU approach to donor co-ordination

The European Union has been making efforts over a number of years to promote more effective co-ordination of its various assistance programmes to reinforce their coherence and complementarity. Guidelines for operational co-ordination between the Community and its member States have existed since 1998, based on the principal of on-the-spot exchange of information and consultation. These procedures have not proved easy to implement, and the EU Council of Ministers recently approved several proposals from the Commission for improving and strengthening the effectiveness of Community co-ordination measures.

- *A statement on development aid policy* focuses future EC action on six priority areas, one of which is trade and development, including assistance to developing countries with their integration into the multilateral trading system.
- *An agreement on a standard framework for country programming* of Community development assistance, based on the partner country's own development strategy, using the co-ordination mechanisms introduced by the Bretton Woods Institutions or the UNDP wherever feasible (CDF, PRSP, UNDAF). The intention is that the EU Member States and the Commission will together be active in the development and practical implementation of these new co-ordination mechanisms, based on leadership by the partner country authorities and on a much more extended process of donor co-ordination, using the PRSP or its equivalent as the basic operational tool.
- *A set of updated guidelines for operational co-ordination* between the Commission and EU Member States make specific suggestions for improving in-field co-ordination, centred on a full exchange of information and, wherever possible, work-sharing and a common strategic approach, using the new standard framework for country programming.

The Community is currently seeking to apply the new approach in the programming of its future development assistance to all developing countries, notably to the 77 ACP countries covered by the Cotonou Agreement, signed in June 2000. This approach provides an excellent opportunity for the mainstreaming of trade issues, for developing trade-sector specific programmes where these figure in the partner country's chosen priorities, and for a sharing of effort and input amongst donors in a co-ordinated and transparent manner. It is entirely consistent with the integrated approach to trade policy capacity building being developed via JITAP or the Integrated Framework for LDCs. The Community is convinced that if trade policy support is to be successfully mainstreamed in the development co-operation agenda it must be introduced at an early stage into this country and regional programming process and at the same time be integrated fully in the wider context of CDF/PRSP/UNDAF preparations. Improved donor co-ordination is essential to the success of both activities.

Ensure that trade capacity building activities are comprehensive in scope and integrated in execution.

Efforts in one area must be implemented jointly with efforts in other areas

The principle that development co-operation efforts should strive to be comprehensive and integrated is more than a mantra – it is critical to the success of efforts to build viable trade policy frameworks. Assembling such a framework will require action in multiple areas, involving multiple stakeholders, and efforts in one area must be implemented jointly with efforts in other areas. A comprehensive approach will also help countries to identify priority needs and donors to identify and co-ordinate priority interventions.

Donors need to make a special effort to reach out to a wide range of key stakeholders, including those concerned that expanding trade may harm their interests, and involve them in the design of projects, especially those aimed at creating consultative mechanisms. Donors also need to ensure that new policy co-ordination mechanisms involve the full range of government departments with an interest in trade policy. And they need to devote resources to the building of capacity in government departments other than trade ministries.

Box 15. The role of ITC in capacity building for trade

A sound macroeconomic environment and effective trade policies are essential but not sufficient conditions for integrating developing countries in the multilateral trading system. There is also a need to develop supply capacities by way of product development, strong marketing skills, efficient trade support services and operative trade development strategies, including sectoral action plans. Building capacities at the operational level of trade development, with a view to improving the competitiveness of the individual enterprise, is at the core of ITC's mandate.

Specifically, ITC's goals are:

- To build national core expertise to master and address the business implications of the evolving MTS-related regulatory framework and formulate negotiating positions on the basis of a good understanding of product and market reality and potential.
- To enhance national capacity to formulate export strategies, particularly at product/sectoral level, grounded on realistic assessments of supply capacities and international demand and an understanding of international commercial practices.
- To strengthen the capacity of trade support institutions to provide effective services to the business community.
- To improve trade performance and facilitate export diversification in selected key product and services sectors; and
- To foster international competitiveness at the enterprise level through improved performance at all levels of the export development process by using tools, guides and opportunities for practical experience.

At global level, ITC follows a "product-network" strategy that involves the participative development of generic products such as diagnostic tools, learning systems, practical guides, information management tools, databases and Internet applications. These tools are supplied through a network of partner institutions (multiplier agents) responsible for their national customisation (both in terms of content and pedagogical approach) and widespread applications, thus minimizing costs and application lead time, and maximizing reach, feedback and sustainability. Subject to the availability of resources, more in-depth and tailor-made assistance is provided at country level.

Foster local ownership and participation in all trade-related development co-operation activities.

… are defining features of an effective trade framework

All trade capacity constraints and trade development challenges are most acutely perceived by businesspeople and civil society representatives. That is why local participation and consultation – among stakeholders, within governments and across regions – are defining features of an effective trade framework. By helping developing countries build such a framework, donors will ensure that the trade development process is locally-owned and demand-driven.

A well-functioning trade policy process will also promote local ownership by minimising the risk that the trade or commercial interests of donors will conflict with those of partner countries. And once the trade policy process is up and running, the key actors will take firmer control of their relationships with donors, identifying with greater precision objectives that can be achieved with additional donor support.

Devise and embrace approaches that will strengthen sustainability

If the trade policy process is truly participatory and inclusive…

If the trade policy process is truly participatory and inclusive, the engagement of stakeholders in policy deliberations will itself build local capacity and strengthen sustainability over time. But donors need to think more systematically about ways to increase the sustainability of trade capacity building efforts. And they must tailor their responses to partner country needs and capacities.

Box 16. EPZ: Incubator for trade development

Today's Economic Processing Zone is a logical outgrowth of yesterday's Export Processing Zone – a special rule-defined area of economic activity meeting social and political objectives. While the old model EPZ has been criticized as static, labour-intensive, incentive-driven, and exploitive, the new EPZ is dynamic, investment-intensive, management-driven and empowering.

The Economic Processing Zone is a policy tool for government to achieve certain specific objectives. Each zone can be designed to overcome restrictions in trade and development. Problems can include inferior infrastructure, ineffective government administration, and economic and social instability. Limited resources may not permit the country, or even the international community, to solve them quickly for a country as a whole, but a modest investment in a new EPZ can ameliorate them in a small area so that the country can begin to benefit from increasing global linkages and learn by doing what is required to succeed in the global market.

The new EPZ is where a nation may learn to manufacture and trade in non-traditional products and services. It frequently has superior infrastructure, transparent operating environment, and responsive management. It attracts both foreign and domestic investment to serve the global market, which includes the country's domestic market. As confidence is gained, the EPZ environment is duplicated in other parts of the country, and the early industry begins to move out of the original zone structure. Meanwhile, the EPZ itself is dynamic. Zone management aims to provide a business environment that is always superior to that of the rest of the country. It deliberately attracts the next more sophisticated level of investor in terms of value-added per worker, capital invested per worker, and/or level of technology. The Economic Processing Zone is an incubator.

The most advanced of these modern EPZs is the "old" zone in Kaohsiung, Taiwan that began with simple sewing and moved through fashion garments to electronic assembly, then to electronic design and testing, research and development, and now is looking toward hosting corporate headquarters and billion-dollar global logistics centers. The Kaohsiung Zone has been developed in 35 years and has paid for itself by accounting for over US$30 billion of net foreign exchange earnings (1/3 of the total of Taiwan). Meanwhile, Bangladesh EPZs have moved much of the garment industry out into the countryside, and started to attract the higher value-added jobs in textile mills and electronic assembly. Some Chinese SEZs are also in transition having lost some of their earlier investors to sites further inland and brought in higher technology investors.

These successful zones share common characteristics.

- **Support from the highest levels of government** to create a truly international business environment.
- **Locations near the nation's best transportation links and population centres.**
- **Programmes to spread successful practices to other parts of the country** which can be done with additional zones as in China, through programmes that provide zone benefits to individual factories, as in the USA, Mauritius, Tunisia, Bangladesh and India, and through the ability of zone companies to subcontract work out into the domestic economy under Customs supervision, as in Korea.
- **Strong management teams help the corporate investor succeed** e.g. one zone management convinced the state Education Department to provide teachers and grant degrees to workers interested in continuing their education in facilities provided by the EPZ.
- **EPZ management commitment to ensuring the success of their investors,** thus seeking and selecting only those investors who can best utilize their own emerging EPZ facilities, steering others to the diversion programmes cited above.

Contributed by: Robert C. Haywood, Director
World Economic Processing Zones Association (WEPZA)

New development co-operation techniques and strategies may be needed. "One-off" initiatives, in which foreign technical experts spend weeks or even months in-country working on a problem but leave little expertise behind, are not only ineffective: they also generate disillusionment among developing country officials and executives. An alternative approach is to post expatriate technical specialists in ministries or private sector associations for extended periods – one or two years, perhaps. Sustained interaction with a single trade specialist can strengthen the quality of policy-making in many LDCs, where trade ministries and business groups are often staffed by just a handful of full-time officials.

Donors also need to do a better job of identifying and using local talent when staffing projects. Greater use of national experts could be fostered by having better information on local expertise, being more flexible in recruiting experts and decentralising authority to field staff. But in their recruitment of project management staff, donors need to take care that they do not drain undermanned government ministries and enterprise associations of their most qualified personnel. Overseas observation missions, another capacity building strategy favoured by many donors, can also limit the availability of local officials and executives, and should be carefully designed.

… identifying and using local talent when staffing projects

Strengthen donors' own trade-related capacities

The trade development agenda proposed here will impose new demands on the skills and knowledge of donors. Expertise in building institutions (public sector, private sector and hybrid) and consultative mechanisms will become especially important. So will strategies for nurturing policy and support service networks. Strengthening stakeholder consultation and policy co-ordination will require improved facilitation skills, especially in the field. Knowledge of multilateral and regional trade policy and issues needs to be enhanced in the field and in headquarters. Increased expertise on the enterprise and NGO sectors will also be useful.

New demands on the skills and knowledge of donors

In light of the fact that donor involvement in many kinds of trade capacity building is still fairly new, donors might benefit from a systematic exchange of information on each other's programmes and experiences. One way to facilitate such an exchange would be to construct an Internet web portal dedicated to the sharing of donor work on trade capacity building. Donors could voluntarily make available to their counterparts a variety of materials relating to their activities, including strategy documents, project descriptions and budgets, project evaluations and background documents. Depending on the availability of funding, it might also be possible for a portal administrator to maintain a comprehensive database of projects, keep the portal's links and resources up-to-date and upload relevant background material and documents generated by institutions other than donors. A database could be quite useful to donors contemplating new forms of assistance – and be valuable for donor co-ordination. Regular dialogue between the trade and aid communities would also help to develop common understanding and potentially improve the quality of approaches.

… systematic exchange of information…

Regular dialogue between the trade and aid communities…

Commit greater financial and personnel resources to efforts to build trade policy frameworks in developing countries – with the prospect of substantial returns

Institutional development is painstaking work. Helping to build a trade policy framework in a country where none has existed before will require long-term donor commitments and the efforts of a large number of talented officials. If the effort succeeds, though, and if enduring capacities can be built, donors can gradually reduce their roles. The long-term cost effectiveness of such an effort will be much higher than the cost-effectiveness of an ad hoc approach that fails to create a self-sustaining trade policy process.

Annex 1

Monitoring and Evaluation

Monitoring and evaluation to assess performance and the results of projects, programmes and activities are two complementary management functions that make it possible to ascertain whether donor support and aid in trade capacity development are meeting their objectives. They should go hand-in-hand with implementation to identify potential problems and successes and to take necessary corrective measures.

Donor support must adequately meet the real needs and expectations of recipients. To that end, monitoring and evaluation must make it possible to:

- Ascertain whether the activities were designed and formulated in such a way as to adequately support national strategies and objectives of the recipient country.
- Pinpoint the factors hampering or favouring the attainment of the objectives set at national level and see to what extent donor interventions feed into the overall objectives and multidimensional strategy developed by the recipient country.

Donor support activities should appropriately and consistently attain their established goals and objectives. This requires:

- Examining the quality of the support material.
- Assessing the process for identifying products (activities) by means of evaluation tools that make it possible to gauge performance in relation to expectations.
- Assessing the capacity of the teams supplying the inputs needed for the activities and determining the extent to which those inputs can be transformed into products or results.
- Examining the results and impact of donor interventions, taking fully into account the views of direct beneficiaries.
- Assessing the degree of real and potential sustainability of results.
- Looking into the linkage between the various activities executed by one donor, on the one hand, and the links between these activities and those of other bilateral and multilateral donors on the other, with a view to better integrating these activities and identifying existing and potential synergies.

It also requires making proper use of available resources:

- Analysing administrative and management aspects of each intervention with a full involvement of recipient institutions.
- Appraising the sustainability of activities in relation to available resources.
- Noting all the lessons from experience, with special attention being paid to the potential impact of donor support on human and institutional capacity building at both national and regional levels.

Box 17. Strategy performance indicators – the Philippines

Contribution to national development objectives	Contribution to enterprise growth and expansion of export base	Accomplishment of specific targets / initiatives
■ National export performance ■ Percentage contribution of exports to gross national product (GNP) ■ Contribution of exports to new jobs created ■ Export growth by region	■ Industry clusters formalised/ established ■ Growth in value added of major export products ■ Net increase in number of exporters ■ Increase in number of export subcontractors and component suppliers ■ New export products developed and successfully launched	■ Policy reforms achieved ■ Programmes and services launched ■ Joint projects undertaken with other agencies ■ Bilateral/multilateral technical co-operation programmes implemented ■ Export-oriented livelihood programmes launched

ITC - Executive Forum, *Redefining Trade Promotion, The Need for a Strategic Response.*

Dimensions of the evaluation and donor support for trade development

To evaluate the quality of donor support interventions, three dimensions should be assessed as objectively as possible: *relevance, performance and success.*

The *relevance* of an activity or a set of activities can be gauged by the validity and timeliness of the objectives set for these activities in relation to:

- The national, regional and international contexts of the beneficiaries. The evaluation must take account of this important dimension, which encompasses the level of development of the beneficiary country, its regional economic relations and its degree of integration into the global economy.
- The real needs of direct beneficiaries of donor aid. The beneficiary country's evaluation of its actual needs and their formulation in consultation with end-users comprise the groundwork necessary for assessing the relevance of an activity, project or programme.
- The mission, competence and comparative advantage of each donor in relation to the others.

The *performance* of donor support programmes can be measured by assessing the progress made in relation to the set objectives. This entails looking at inputs and immediate results. Performance criteria often address:

- Efficacy, which should reflect the extent to which objectives have been attained and products delivered.
- Efficiency, which requires optimal transformation of inputs into products.
- Punctuality, which presupposes that inputs and results are produced on time. The evaluator should pay special attention to the timeframes for the completion of activities.

Success is a dimension that generally becomes evident in the longer term, especially for aid targeted mainly at policies, institutions and capacity building. The success of donor aid depends on the impact on beneficiaries and should be reflected in a change in their situation. Active participation in trade negotiation processes could be one of the indicators to measure the impact. It also depends in large part on the sustainability of the results, especially in terms of capacity building, even after the termination of donor support activities. The autonomy of the recipients must be one of the long-term objectives of any aid. Specific indicators could show if any impact is reached depending on whether expected results are short, medium or long term.

Identification of indicators

Indicators can signal changes of situation or specific results. They show whether the objectives set for activities have been attained. Each partner country should aim to set its own national development objectives with trade as a key element and build monitoring and evaluation into the strategy (Box 17).

In the context of donor support for capacity development for trade, the indicators should be established in design and programming and in evaluating the needs of beneficiaries and setting specific objectives. In this connection, thought should go to the aims of the activities, the target beneficiaries and their needs, the changes expected to result from the activities, the degree of efficiency with which the activities achieve their aims and its measurement and to the criteria to be used for gauging the success of the activities (impact, sustainability and contribution to capacity building).

Quantitative, qualitative and approximation criteria may be used. Quantitative indicators will calibrate the results of activities in volume terms and on the basis of a cost-effectiveness approach. Qualitative indicators will be used to assess behaviour and attitudes with a view to measuring the impact and sustainability of the results. Approximation indicators will be used when data are hard to come by. They help to pinpoint performance trends, potential problems and signs of success. All these indicators could be used to analyse the impact of donor aid on beneficiaries in the short, medium, and long term:

Enhancing country participation in world trade

What is the country share in world trade (target percentage)?

Ensuring trade reforms and policy formulation

What reform measures have been undertaken?

What are the implications?

Enhancing human and institutional capacity to participate in the multilateral trading system

How many LDCs are represented in Geneva/Brussels?

How many LDC delegations participate in meetings and negotiations?

Organising trade capacity development activities

What is the scope of participation?

How many firms and sectors are represented?

Enhancing institutional aspects of the implementation of WTO agreements

Are institutions like enquiry points for the GATS, TBT and SPS agreements up and operational?

Is the private sector able to comment in a timely manner on most WTO notifications relevant to the country exporters' interests?

Setting up and enhancing institutional capacity for policy formulation and implementation

Are national consultative bodies operational?

Who takes part?

Have strategies been developed for implementation?

Developing access to information on trade issues and networks between public and private sectors

What types of information are governmental institutions and the private sector getting?

From what sources?

Is it relevant and up-to-date?

Are mechanisms and institutions such as the WTO Reference Centres operational and open to the private sector?

Setting up co-ordination mechanisms on WTO matters at national level

Have national committees (or focal points) to co-ordinate WTO related issues been established and functioning?

Adapting domestic legislation and regulations to international trade agreements

Have new laws and regulations adopted been notified?

Has a programme of legislative reform been agreed by government?

Enhancing private sector competitiveness

Have exports by local enterprises increased?

Using multilateral mechanisms to protect rights

What have been the results of using the WTO Dispute Settlement System and Safeguard mechanisms?

How many cases have been brought to the WTO?

Annex 2

The Four Country Case Studies*: Parallels and Contrasts El Salvador, Ghana, Senegal and Vietnam

The four case studies conducted in preparing these guidelines reveal features common to all, or most, of developing countries. They also reveal some significant differences. In all four countries, many (if not all) of the principal obstacles to trade development are not directly trade-related. El Salvador's export performance has been constrained by poor infrastructure, production costs that are high relative to its neighbours and large remittances from Salvadorans working abroad, generating upward pressure on the exchange rate. Vietnam's export performance, though strong, appears to have been hurt by legal and policy-related impediments. Senegalese exporters struggle with high factor costs, limited credit and poor physical infrastructure. In Ghana, "macroeconomic instability, partly fuelled by the government's monetary and budgetary policies, is arguably 'the fundamental problem hampering competitiveness'".

Vietnam and El Salvador both recorded impressive export growth in the 1990s. But in the past two years, Vietnam experienced a significant drop in direct foreign investment, which played a key role in stimulating export growth in the 1990s, and it faces some difficult reform decisions in its bid to join the WTO. El Salvador's exports have not grown as much in value or in diversity as have its neighbours'. The end of the Multi-Fibre Agreement will also pose a major challenge for El Salvador's relatively high-cost textile sector, a key foreign exchange earner. Like El Salvador, Ghana and Senegal both face the prospect later of losing a substantial measure of preferential access to key foreign markets, when non-LDC countries in the ACP group must give up their non-reciprocal tariff preferences under Lomé. All four countries – including the top export performers, Vietnam and El Salvador – derive most of their export earnings from a relatively narrow range of products. All have had difficulty diversifying into new products and markets.

Ministries, private sector institutions and private firms in all four countries have, to varying degrees, had difficulty gaining access to and disseminating information on international trade policy developments and foreign markets. In Vietnam, Ghana and Senegal the information deficit is a consequence of limited access to computers and the Internet or limited capacity to analyse data and trends. In Senegal and Ghana these limitations are compounded by difficulties ensuring that information and data are distributed to all those officials and private sector representatives with an interest in them. Evidence from Vietnam and Senegal suggests that inadequate access to information is undermining not only the effectiveness of trade policy-making, but the bargaining power of exporters in their dealings with intermediaries or importers.

Of the four countries, only El Salvador could be said to possess strong technical capacity in all of the critical trade policy functions: trade policy analysis and formulation, trade negotiating and implementation of agreements. Ghana and Senegal are struggling to formulate policy, prepare for negotiations and meet their obligations. Vietnam has sought external assistance to help it make the policy and institutional reforms necessary to accede to the WTO.

Ghana and El Salvador have fairly well articulated trade development strategies; Vietnam and Senegal lack clear strategies. The absence of a coherent trade development strategy does not yet appear to have substantially harmed Vietnam's export performance. Nor has the existence of such a strategy substantially boosted Ghana's export performance. The dispersion of trade policy authority across several government departments may be undercutting Ghana's effort to mount a coherent trade strategy.

*Available on the OECD Online Bookshop

Regional integration is a key element of the trade strategies of all four countries. But the governments and private sectors of Ghana and Senegal appear to lack the technical capacity they need to participate effectively in shaping of each country's regional integration schemes.

Assistance for trade capacity building is not a significant part of the overall donor portfolio in any of the four countries. In El Salvador, for example, trade-related assistance has accounted for only about 2% of total donor expenditures since 1993.

Donors are not actively co-ordinating their trade-related assistance in any of the four countries. This may be due in part to the fact that trade-related projects are not a significant part of donor portfolios. To varying degrees, donors in the four countries were co-ordinating activities or exchanging information on other forms of assistance. Consultation and information exchange appear to have progressed furthest in Vietnam, where UNDP has taken a leadership role in the donor community, and in Senegal, where 19 donor co-ordinating committees have been established (although none for trade-related assistance).

In different ways, Senegal, Ghana, and Vietnam have had difficulty making effective use of the trade-related technical assistance. Donor "competition" for access to trade officials and institutions may be encouraging the countries to accept more assistance than they can absorb. In addition, officials may be signing up for trade-related projects not because they are convinced of their benefit, but because of the remuneration, equipment or other resources those projects provide.

Governments and private institutions appear comfortable with their "ownership" of trade development strategy in Vietnam and El Salvador (although private sector institutions are not yet significant participants in trade policy-making in Vietnam). In Ghana and Senegal, private sector institutions express dissatisfaction with the responsiveness to their needs of donor-supported trade development activities.

Annex 3

Useful Websites on Capacity Building for Trade Development

www.wto.org

World Trade Organization

Technical co-operation in the WTO aims to help recipient countries understand the WTO agreements and expand their capacity to use the multilateral trading system in order to advance their economic growth and meet their development objectives.

www.wto.org/english/thewto_e/teccop_e/tecguide_e.htm

Guide to sources of trade-related technical assistance

This is meant to be a comprehensive Guide to technical assistance provided by the WTO and other organisations and national governments. The information contained in the Guide was supplied by the agencies and governments concerned.

www.intracen.org/

International Trade Centre

The International Trade Centre UNCTAD/WTO (ITC) works with developing countries and economies in transition to set up effective trade promotion programmes for expanding their exports and improving their import operations. This covers six key areas: product and market development; development of trade support services; trade information; human resource development; international purchasing and supply management; and needs assessment and programme design for trade promotion.

www.intracen.org/itcinfo/techinfo/english/list.htm

ITC Technical Co-operation Tools

www.jitap.org/

Joint Integrated Technical Assistance Programme

JITAP is a collaborative programme launched by ITC, WTO and UNCTAD to trigger a solid process of trade policy-making in poor countries starting from a very low level of awareness and institutional capacity.

www1.worldbank.org/wbiep/trade/default.html

World Bank

The World Bank Website on International Trade and Development was created as a research, training and outreach tool for people interested in trade policy and developing countries. Particular emphasis is placed on the new trade agenda associated with the anticipated new round of WTO negotiations. Interesting course and training material can be found on the site.

www1.worldbank.org/wbiep/trade/WTO_2000.html

World Bank – WTO 2000 Capacity Building Project

This three-year research and capacity building project was launched in January 1999 to help developing countries participate more effectively in the next round of WTO negotiations. The site primarily contains the research papers. It also provides links with Websites of developing country regions, such as AERC (Africa Economic Research Consortium), LATN (Latin American Trade Network) and TIPS (Trade and Industrial Policy Secretariat (TIPS), a resource centre for trade and industrial policy research in Southern Africa), some of which have special sections on capacity building for trade.

www.unctad.org/en/techcop/techcop.htm

UNCTAD

UNCTAD's technical co-operation programmes on trade aim at expanding the trading opportunities of developing countries, by building up their capacity in this area through policy advisory services, access to information and training. The emphasis is on enlargement and improvement of export market opportunities, including the commodities sector, and on improving the efficiency and cutting down the costs of export and import transactions.

www.ldcs.org

Integrated Framework for Trade-related Technical Assistance for LDCs

This is the initiative of six core organisations to work together with the Least Developed Countries (LDCs) in an effort to co-ordinate their trade assistance programmes. The Website contains all relevant information on the progress of the Integrated Framework in the LDCs.

www.ftaa-alca.org/

Free Trade Area of the Americas

This Website provides useful information on the process, its committees, the measures designed to facilitate commercial exchanges in the Hemisphere.

www.ftaa-alca.org/tecass/tapindex.asp

FTAA Database of Technical Assistance Programmes.

www.ictsd.org/

International Centre for Trade and Sustainable Development

The centre is an independent non-profit and nongovernmental organisation that contributes to a better understanding of development and environment concerns in the context of international trade. A very useful weekly trade news digest provides a weekly review of trade-related articles and information relevant to the sustainable development and trade communities (free e-subscription on Website).

www.iisd.org/tkn/default.htm

Trade Knowledge Network

This is part of a project aimed at building long-term capacity to address the issues of trade and sustainable development in developing country research institutions, nongovernmental organisations and governments through increased awareness, knowledge and understanding of the issues. The network will link members and consolidate new and existing research on trade and sustainable development.

www.oneworld.net/ecdpm/

ECDPM

This programme aims to strengthen the capacity of organisations in ACP countries to manage development policy and international co-operation and to improve co-operation between development partners in Europe and the South. The Website provides an Infokit on the new Cotonou Convention (including the new trade regime) and a variety of publications on trade and capacity building.

www.capacity.org/

Capacity building – ECDPM

A specific Website dedicated to advancing the policy and practice of capacity building in international development co-operation is linked and a special issue on capacity building for trade is planned in late 2001.

DAC Guidelines

The OECD Development Assistance Committee adopts policy guidance for Members in the conduct of their development co-operation programmes. These guidelines reflect the views and experience of the Members and benefit from input by multilateral institutions and individual experts, including experts from developing countries.

Shaping the 21st Century: The Contribution of Development Co-operation

Approved by the DAC High Level Meeting of 1996, *Shaping the 21st Century* sets forth strategic orientations for development co-operation into the 21st century. The report recalls the importance of development for people everywhere and the impressive record of human progress during the past 50 years. It suggests a set of basic goals based on UN Conference outcomes – for economic well-being, social development and environmental sustainability – as a vision for the future, and proposes strategies for attaining that vision through partnership in support of self-help efforts, improved co-ordination and consistent policies. These goals, and the partnership approach, have since been widely adopted in the international development system.

In this context, DAC Members have developed a series of guidelines for attaining the ambitious goals set out in *Shaping the 21st Century.*

The DAC Guidelines (2001):

- ***Poverty Reduction***
- ***Strategies for Sustainable Development***
- ***Strengthening Trade Capacity for Development***
- ***Helping Prevent Violent Conflict***

Previously Published *DAC Guidelines*

- ***DAC Guidelines for Gender Equality and Women's Empowerment in Development Co-operation***
- ***Support of Private Sector Development***
- ***Participatory Development and Good Governance***
- ***Donor Assistance to Capacity Development in Environment***
- ***Guidelines on Aid and Environment:***

  No. 1: Good Practices for Environmental Impact Assessment of Development Projects

  No. 2: Good Practices for Country Environmental Surveys and Strategies

  No. 3: Guidelines for Aid Agencies on Involuntary Displacement and Resettlement in Developing Countries

  No. 4: Guidelines for Aid Agencies on Global Environmental Problems

  No. 5: Guidelines for Aid Agencies on Chemicals Management

  No. 6: Guidelines for Aid Agencies on Pest and Pesticide Management

  No. 7: Guidelines for Aid Agencies on Disaster Mitigation

  No. 8: Guidelines for Aid Agencies on Global and Regional Aspects of the Development and Protection of the Marine and Coastal Environment

  No. 9: Guidelines for Aid Agencies for Improved Conservation and Sustainable Use of Tropical and Sub-Tropical Wetlands